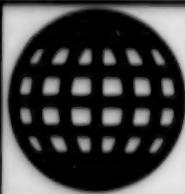


JPRS-CAR-90-006  
25 JANUARY 1990



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# ***JPRS Report***

# **China**

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# China

JPRS-CAR-90-006

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25 JANUARY 1990

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## GENERAL

### Commemoration of, Reaction to UN Social Progress Declaration

HK0301033090 Beijing RENMIN RIBAO in Chinese  
11 Dec 89 p 4

[Article by Wan Xian (3306 2009): "For the Sake of World Peace and Development"]

[Text] Today is the 20th Anniversary of the United Nation's adoption of the Declaration on Social Progress and Development. The Declaration, made 20 years ago, expressed the common desire of the international community, particularly of the developing countries, for peace and progress. It pointed out the goals of social development that all countries of the world, particularly the developed countries, should strive for. After 20 years the Declaration is still valuable in guiding all nations, particularly developing nations, to work realistically toward social progress.

In the late 1960's, a large number of developing countries became independent, and they eagerly wished to safeguard national independence, to develop economically, and to improve and progress socially. The UN Commission for Social Development (UNCSD), after nearly 20 years' study of international social conditions and assessment of the planning and policymaking of the nations of the world, felt the need for an international agreement and pact in the field of social development. It was under these circumstances that the 1966 UN General Assembly adopted Resolution 2215, instructing the UNCSD to draft a declaration on social development. The draft was later reexamined and revised several times by UN agencies before it was adopted by the UN General Assembly on 11 December 1969, under the title of Declaration on Social Progress and Development.

The Declaration is the most comprehensive programmatic UN document in the field of social development to date. It correctly reveals the interdependence and interaction between a peaceful world environment and social progress and economic development. It proclaims that the injustice of the international economic system, colonial plundering, racial discrimination, war, and the arms race have hampered the world's social progress. The Declaration demands a change in unequal international economic relations, the elevation of the trading position of developing nations, and the provision of financial aid by developed countries to developing countries, to benefit the economic development and social progress of the whole world. The Declaration also proposes that social progress and development should aim at continuous improvement in the material and spiritual living standards of members of society, as well as coordinated development and constant harmony between physical progress in science and technology and moral progress in religion and culture. The Declaration calls for proper attention to the adverse effects on society and to the finding of solutions simultaneous with the speeding up of industrialization. The Declaration actively promotes

the establishment of legal, administrative, and economic measures to safeguard the basic human right of survival, in particular to care for the benefits and lives of the mentally and physically handicapped. The changes in the world in the past two decades demonstrate that the Declaration on Social Progress and Development has generated a series of impetuses to propel the world toward peace and social progress and development.

As a UNCSD member, China has been responding positively to the call of the Declaration. In the past 40 years, and especially in the last 10, the Chinese Government has done a lot to guarantee employment, to increase personal income, to provide social benefits, and to protect workers' safety. All these have produced positive results.

The Chinese Government has been very attentive to reducing unemployment by way of combining recommendation of applicants by the Department of Labor, voluntary group assignment, and individual job hunting. Recently, under the policy of "being trained before being employed," technical colleges, professional schools, and vocational centers developed quickly and their numbers increased greatly. In the 10 years up to 1987, 76.88 billion people were assigned jobs in the municipalities, cities, and towns, where the unemployment rate was reduced from 5.3 percent in 1978 to 2 percent in 1987. Women played ever bigger roles in socialist construction: female workers totaled 48.69 million, or 37 percent of the country's work force. Civil departments of cities and towns set up welfare factories, and districts and streets set up collective-owned welfare production networks, to help out the unemployed in centralized locations. Various enterprises placed personnel distributively in their respective systems. In much the same way the government encouraged and helped the handicapped to do whatever work they were capable of. Today, more than 50 percent of all the handicapped, fully or partly capable of working, are employed.

Through increasing production and improving productivity, the Chinese Government raised the salaries and wages of cadres and workers according to a planned schedule and ameliorated people's standard of living by stages. The 1987 national average salary had increased by 51.9 percent over that in 1978. The country adopted laws, policies, and new technology to increase a safe, hygienic, and pleasant environment for workers, and to guarantee safe production. Since 1978 the country has promulgated a series of general regulations for the protection of workers and of national standards for workers' safety and health. The country has set aside special funds in the annual budget to clear industrial dust and poisonous gases from working areas.

The Declaration demands action to provide social protection and welfare jobs for the sick, the handicapped, and the aged who are unable to earn enough to live on, and the Chinese Government did so long ago. Chinese citizens of an advanced age and the sick or disabled have the right to receive material help from the country or

from society. China has done a lot since the establishment of the People's Republic to extend social insurance, relief, and medical coverage, specifically to protect female workers and the underaged. In July 1988, the State Council promulgated the Regulations on the Protection of Female Workers, which guarantee the rights and benefits of female employees. In November 1988, the Ministry of Labor reiterated its previous announcement that the exploitation of child workers by any unit or individual is prohibited.

With a fifth of the world's population, China has planned its actions for social development according to its own special conditions, and its actions have had fruitful results in social progress. In the implementation of the Declaration on Social Progress and Development, and in the promotion of world peace and development, China has made its contributions.

## UNITED STATES

### Report on U.S. Reassessment of Defense Strategy

OW1001050590 Beijing XINHUA in English  
0128 GMT 10 Jan 90

[Text] Washington, January 9 (XINHUA)—The U.S. military authorities are conducting a series of reassessments of defense strategy and major weapon systems against a backdrop of changing East-West relations.

In a December directive to Undersecretary of Defense for Policy Paul Wolfowitz, according to a report of DEFENSE NEWS in its latest issue, Defense Secretary Dick Cheney asked the undersecretary to use new ideas and approaches in challenging the traditional assumptions governing U.S. military policy, which has focused on the European theater and pits the bulk of U.S. defense planning and allied NATO strength against a hostile Warsaw Pact force led by the Soviet Union.

Undersecretary of Defense for Acquisition John Betti was ordered by Cheney to lead a review of the Pentagon's four largest procurement programs.

The two undersecretaries will report to Cheney by late March with recommendations on military strategy and the requirements driving the weapons systems that will comprise the bulk of the department's 1992 budget request, the report said.

The Bush administration has been under increasing pressure publicly for military cuts both in manpower and spending as the era of cold war between the East and West is believed to be ending. There have also been public discussions on how to use the "peace dividend" in the rebuilding of the country.

Cheney reportedly has a tentative plan to cut defense budget by 180 billion dollars for the next five years.

## SOUTHEAST ASIA/PACIFIC

### 50 Mainland Dissidents Reported in Thailand

OW2101094890 Taipei CNA in English 1425 GMT  
20 Jan 90

[Text] Taipei, Jan. 20 (CNA)—About 50 mainland Chinese pro-democracy activists have escaped to Thailand after the Chinese communist regime brutally cracked down on the democracy movement last spring, according to a FAR EAST NEWS AGENCY report from Bangkok Saturday.

Quoting informed sources in Bangkok, the report said most of the mainland Chinese dissidents were waiting for chances to settle in other countries.

About half of them have applied to the French Embassy in Bangkok for permits to settle in France, but so far only two have been accepted. The two left for Paris a month ago.

The sources close to the French Embassy said the embassy has made it clear that they would not accept any more mainland Chinese even though some of them were well-known figures of the democracy movement.

### Ningxia Art Troupe Performs in New Delhi

OW1401024390 Beijing XINHUA in English  
1658 GMT 13 Jan 90

[Excerpts] New Delhi, January 13 (XINHUA)—The Ningxia Art Troupe of China gave a performance here this evening to a warm welcome of a large audience. [passage omitted]

The art troupe came from the Ningxia Hui Autonomous Region, northwest China, on the renowned ancient "silk road".

The troupe is here as part of a cultural exchange program of the Indian Council for Cultural Relations. Council Director-General Veena Sikri told the reporter that the exchange program began about one and a half year ago when a group of choreographers visited China.

Ms. Sikri said that on the occasion of the 40th anniversary of the establishment of diplomatic relations between India and China, in March-April this year India would send an exhibition of brocade to China and receive a display of famous Chinese jade and ivory carvings. Moreover, she added, China will also send an opera troupe to India.

## WEST EUROPE

### LIAOWANG Views German Reunification Issue

HK3112080089 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese  
No 52, 25 Dec 89 p 30

[Article by Li Zhongfa (2621 6988 4099): "The Origin and Development of the Issue of German Reunification"]

[Text] Recently, the GDR's political situation has drastically changed. Especially since the GDR announced the opening of its border and the Berlin Wall on 9 November, talks on German national reunification have again dominated the world's political arena and have drawn the considerable attention of the Soviet Union and the United States, as well as other European states.

The emergence of two Germanys is an outcome of World War II. On 8 May 1945, Hitler's Nazi Germany, which launched World War II in an attempt to dominate Europe, fell into the abyss of destruction. After the war ended, Germany was separately occupied by the Soviet Union, the United States, Britain, and France. The capital, Berlin, was also separately controlled by the four countries. On 20 September 1949, the FRG was set up in the area jointly occupied by the United States, Britain, and France and, on 7 October of the same year, the GDR was set up in the area occupied by the Soviet Union. Since then, Germany was officially divided into two. Meanwhile, Berlin was also divided into two parts, the eastern part and the western part.

Since the founding of two Germanys 40 years ago, work on reunification has had its ups and downs. At first, the two Germanys attached importance to this issue. It is stipulated in the FRG Basic Law (that is, Constitution): All German people still call for German reunification and freedom through free self-determination. But the GDR gradually gave up its position on reunification in the 1960's, claiming that "reunification is unrealistic." The new Constitution passed by the GDR in 1968 stipulates: "Establishing and safeguarding normal relations and cooperation between the two Germanys on the basis of equality is a national demand of the GDR. In the 1970's the GDR further pointed out that the 'socialist nation' is in the East while the 'capitalist nation' is in the West and that the 'socialist nation and capitalist nations are as incompatible as fire and water.'"

In the 1950's and 1960's, the FRG pursued the "Hallstein Doctrine," namely, that the FRG will sever diplomatic relations with any country that recognizes the GDR. After the "Hallstein Doctrine" failed, the FRG normalized its relations with the GDR, but it still maintained that the two Germanys do not regard each other as foreign countries.

The GDR is the western outpost of the Warsaw Pact organization and the FRG is the eastern outpost of NATO. Therefore, the struggle over the problem of reunification of the two Germanys was also markedly tinted with the hue of social systems and ideological struggle. The Berlin Wall, which was built by the GDR in the early 1960's, was an outcome of this struggle.

In recent years, as a result of detente between East and West, relations between the two Germanys have developed rapidly. Former GDR leader Erich Honecker paid an official visit to the FRG in September 1987. He also returned to his native land, (Neukirchen-Wilski), Saar, to visit the elders and folks from whom he had been

separated for several decades. Relations between the two Germanys developed markedly. The development of recent events in the GDR has also brought new factors into their relations, and the issue of German reunification will probably become a central topic in the development of their future relations.

The question of whether the two Germanys will be reunified should be determined by the two governments and the people of the two countries. What merits attention is that there are people in the FRG who attempt to revive the old dream of the German empire. Taking advantage of the recent changes in the GDR's political situation, they openly call for changes in the political and economic systems of the GDR. Generally speaking, the attitude of the FRG government is fairly prudent. On 28 October, Chancellor Kohl put forward a "10-point program" aimed at achieving German reunification. He called for the establishment of a "confederated structure" first between the two Germanys and then a transition to a "federation." According to the "10-point program," the establishment of a "confederated structure" should "take as a precondition the existence of a democratic and legitimate government in the GDR." It maintained that the GDR "must abolish the monopoly of power by the Socialist Unity Party. It supported the 'holding of elections in the GDR, which are free, equal, and secret and in which independent, including nonsocialist, political parties take part.'" It maintained that "the planned economy must be abolished" and called for "the creation of market economy conditions" and so on. Moreover, Kohl called for "caution and reason" on the question of reunification, saying that it is necessary to respect "any decisions made by the people of the GDR through free self-determination." He also expressed his readiness to take into account the situation in Europe as a whole.

The GDR adheres to its stand on the coexistence of two Germanys. A GDR government spokesman recently pointed out that Kohl's "10-point program" is "out of touch with reality and tends to cause chaos." It "disregards the sovereignty and independence of two Germanys laid down in the basic treaty governing the relations between the two Germanys and the final Helsinki Accord." The GDR holds that the question of German reunification "has not been placed on the agenda," that "the existence of the two Germanys is the basis of Europe's current stability," and that the two Germanys should set up a stable, measurable relationship.

The question of German reunification is a sensitive one. It not only concerns the future of the two Germanys but also affects the stability of Europe and the development of East-West relations. The Soviet Union, the United States, France, and Britain, as well as other European countries, have their own concerns about German reunification and they follow with interest the development of the situation. Generally, they are rather cautious. Many countries have also manifested their misgivings. One of their principal fears is that a "superpower" will emerge in Western Europe following reunification of the two Germanys.



In the face of the West's overbearing offensives of peaceful evolution and the drastically changing situation in Eastern Europe, the Soviet Union has basically adopted an attitude of opposition toward the question of German reunification, maintaining that "given that Europe is still divided into two military blocs, discussing the issue of German reunification is sheer fantasy." Soviet leader Gorbachev holds that it is still too early to consider the question of German reunification, that there is no need to discuss Kohl's "10-point program," and that the development of relations between the two Germanys must take into account the reality created by World War II. When recently holding talks with FRG's Vice Chancellor and Foreign Minister Genscher, Soviet Foreign Minister Eduard Shevardnadze said some clauses in Kohl's "10-point program" are "similar to issuing direct orders to the GDR." He said the Soviet Union favors expanding cooperation between the two Germanys on the basis of equality. The unusual questions that have come into being today should be solved in the context of all of Europe.

The United States expresses support for Kohl's "10-point program" but opposes acting with undue haste on German reunification. President Bush holds that the question of German reunification is one that should be decided by the German people and that the United States should not peddle the concept of reunification nor work out a timetable for reunification.

Although France, Britain, and other European countries pay lip-service to the German's right to national reunification, they actually oppose it. French President Mitterrand stressed that "it won't do for a country to act independently without taking into account the balance of power that has taken shape since the war and the views and plights of other countries." Polish President Jaruzelski, however, demanded that the FRG explicitly recognize Poland's western boundaries.

The NATO and the European Community also take a prudent attitude toward the question of German reunification. The special NATO summit held in Brussels on 4 December held that in solving this issue it is essential to observe four principles: The inviolability of existing boundaries; adherence to a "peaceful and gradual process"; consideration of the question in the context of NATO and the European Community; and the method of self-determination. Although the European Community summit held on 8-9 December recognized the "German people's right to free self-determination," it also stressed that the process of German reunification "should be achieved through peaceful and democratic means and should be built on the basis of observing all treaties and the principles laid down in the final Helsinki (European Security Conference) documents and should be conducted against the background of East-West dialogue and cooperation."

It seems that both East and West are still not very enthusiastic about the FRG Government's "reunification" plan. Under these circumstances, FRG Foreign Minister Genscher stressed that it is impossible to work

out a timetable for the reunification of two Germanys now. He admitted that "only when there is reconciliation in Europe is it possible to spur reconciliation between the two Germanys" and that only when obstacles have been removed among all European states is it possible for the German question to be solved.

The question of German reunification involves the "Yalta agreement" which decided the postwar East-West general pattern. The sensitivity and complexity of this problem means that it is difficult and will take a long time to solve.

## WESTERN HEMISPHERE

### Account of Colombian Criticism of U.S. Navy Maneuvers

OW1001040590 Beijing XINHUA in English  
0710 GMT 9 Jan 90

[Excerpt] Bogota, January 8 (XINHUA)—U.S. Navy maneuvers in international waters of the Caribbean off Colombia have provoked energetic protests from various political parties in Colombia.

The traditional Social Conservative and Liberal parties, as well as the Patriotic Union, called the maneuvers a "grave threat to national sovereignty."

The United States Thursday sent an aircraft carrier and a nuclear-powered cruiser to waters off the Colombian coast. The U.S. Administration said the mission was designed to interdict drug trafficking.

Rodrigo Barranza Solcedo, president of the National Directory of the Social Conservatives, said the attitude assumed by the U.S. Government was very serious, and he recommended the immediate calling of special congress sessions to study the case.

Rodrigo Barranza rejected airborne operations and demanded that the government inform the Colombian people about what is happening.

The Colombian Government has refused to join in U.S. military actions on the high seas or in Colombian waters.

The president of the Patriotic Union, Bernardo Jaramillo Ossa, warned that these maneuvers are the first step toward an invasion such as the one that recently occurred in Panama.

He said that this verges on U.S. meddling, using the pretext of protecting its personnel and military installations just as when it invaded Panama.

Candidate for the presidency of the Liberal Party, Hernando Duran Dussan, who is on vacation in Miami, Florida, said in an interview with the local newspaper NUEVO HERALD that "Colombia does need to be watched or ordered about by other countries to ensure that it controls drug contraband.... The country can face the problem alone," he said. [passage omitted]

### Portrait of Poet, Dissident, Lao Mu

900N0062C Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 236, 1 Sep 89 pp 87-88

[Article by Bei Ling (6296 1545): "Singing in the Fire—Remembering the Poet, Lao Mu (5071 2606)"]

[Text] He is a literary activist, a reporter, and an editor of literature. Because of his ability as a poet, he is able to sense the ominous storm.

If a person of his gentle character, his ambivalence, his simple background, and his impeccable record has to endure such adversity, the fate of the others must be unimaginable.

I have in front of me a picture of three of Beijing University's alumni. In the background is the white marble base of the Monument to the People's Heroes in Beijing's Tiananmen Square. It is dated May 1989, and the three people are Wang Dan [3769 0030], Lao Mu, and Liu Gang [0491 0474].

I can only write about Lao Mu. He is the oldest of my old friends. We are poets and were also compatriots when we worked for the magazine, QINGXIONG [THE TREND]. Little Lao Mu is older now and is more mature. He has even grown a beard; he is still wearing those maroon glasses that I gave him. The expression in his eyes is steadfast but lost. I still remember his habits, his glittering expression in front of the camera.

### Poet and Literary Activist

I still cannot visualize Lao Mu as a professional revolutionary. He is but a sincere and simple writer who has a rich sense of righteousness. In a normal situation, he is an indefatigable literary activist, a fine reporter, and an editor of literature. He likes to work at night and wants to finish his work in one sitting. His poems have become more and more natural and unrestrained and, because of his ability as a poet, he is able to sense the ominous storm. In his poems, he longs to "sing in the fire," and he has predicted that we will encounter suffering in the "tyranny of our times." But all these are but poetry; they should transcend politics; they should transcend nationality. How can a nation of poetry persecute its own poets?

Lao Mu's real name is Liu Weiguo [0491 5898 0948]. He was born in Jiangxi. He has been a literary activist ever since he came to Beijing University [Beida] to major in Chinese. He was vice chairman of Beida's May 4 Literary Society, and it was then that he also began to write poetry. He was quiet but full of energy and he helped start numerous campus literary journals. Upon graduation, he was assigned to the CPC Beijing Municipal Party School to teach literature. Strictly speaking, he came from a good family and has the simple background of a student, but that only landed him a job at the party school. Perhaps it was his fanaticism for poetry that eventually took him onto a different path.

At the end of 1984, he was entrusted by Beijing University's May 4 Literary Society to compile a collection of works by Chinese avant-garde poets. At that time, many young poets in the mainland had succumbed to the "anti-spiritual pollution" movement, but the avant-garde songs and poems were nevertheless extremely popular among young people. Poems like mine, in particular, could never have been published in the official literary journals; they would have to be circulated underground in the civilian literary publications, in mimeograph form. To be able to compile a poetry collection by the avant-garde poets, works that have genuine literary significance, and to be able to publish it in China was our, the avant-garde poets', dream. In 1985, with unmatched enthusiasm, and with the support of a dozen or so Beijing University professors, Lao Mu worked night and day and took three months to visit scores of young poets in Beijing and elsewhere, looking for original manuscripts. He worked well into the night to compile and edit them. He raised money from nongovernment sources and rushed the work to some out-of-town print shop. He proofread, designed the layout, and lined up transportation. In only six months' time, the first letterpress-printed civilian publication in China's 40 years of publication history, *Xinshichao Shiji* [New Wave Poetry Anthology], was born.

It was a hot-selling book indeed. Without proper distribution channels, with just our own efforts and the publicity of the university students and friends, *Xinshichao Shiji* sold more than 30,000 copies in just one year. The chief editor and publisher of this book was Lao Mu. He was but a 23-year-old poet.

### Literary Editor and a Cosignatory of the Open Letter

Lao Mu became famous, but not-too-serious troubles also befell him. In 1986, when the "anti-bourgeois liberalism" movement first began, Lao Mu was personally criticized by the inner circle of the CPC Propaganda Department. *Xinshichao Shiji* was branded an "illegal publication" by the same Propaganda Department and was put on exhibition at the Beijing Military Museum. Lao Mu could not stay in the party school. With the help of friends in literary and art circles, he was fortunate enough to find work in WENYI BAO [LITERATURE AND ART] as an editorial reporter. Finally, he could put what he had learned to use and became an editor of literary works.

He was WENYI BAO's best reporter and a great communicator. He was the kind of reporter who could ride around on his bicycle for a day and then put together a whole front page just like that. But he had not yet spent his energy. His real dream was to start a journal of pure literature for his fellow writers. At the same time, he wanted to write poetry, literary critiques, and even write an epic treatise on the history of China's vanguard poetry. But even that did not use up his energy. He longed for love. Chasing after his girlfriend, he made a special trip to Yunnan and had it out with her family; it was a mess. Meanwhile, he even found time to take a

manuscript of a book that he had edited to the local publisher to be priced. Travel-worn and weary, he knocked on all of his friends' doors like a ghost. He planned the opening of a literary salon and organized a mammoth avant-garde poetry recital.

But all these are in the past. A sincere and warm-hearted intellectual, whose upright character and whose sense of responsibility to the country which gave him a sense of mission and a sense of participation, forced him to throw himself into the prodemocracy movement that had awakened all people. In February of this year, he was one of the 33 Chinese intellectuals who sent an open letter to the government and the ruling party, urging them to release Wei Jingsheng [7614 2529 3932]. They acted with restraint and reason, and in a chain reaction, they won the support of the entire intellectual community. They only expressed their minimal hope; they did not even demand that the government reevaluate this historic incident. All they wanted was that, on the 40th anniversary of the founding of the nation, the government would grant special amnesty to a figure in a historic incident. But subsequent events only cruelly mocked the intellectuals' goodwill.

#### **He Simply Could Not Abandon the Prodemocracy Movement**

In the end, a student petition movement of an even grander scale erupted. It spread to the whole society, and a prodemocracy movement of the whole people soon followed. Because of its peaceful and rational nature, and because it rejected forceful and violent demands, the people were moved, and the entire intellectual community, and even staff members of the party and government organs were moved. As a poet and a member of the literary circles, Lao Mu was deeply moved. He is by nature not a violent or fanatical person. For many years, he even carefully avoided politics. When he started the journal, QINGXIANG, he emphasized purity and idealism in a poet's work. In the first issue of QINGXIANG, he and the other poets quoted a verse from Matthew in the New Testament as a closing statement; it says, "For the gate is narrow and the way is hard that leads to life, and those who find it are few." This kind of eternal life transcends politics. It is a spirit, a kind of courage that enables a write to face noumenon.

To the end, I still maintain that Lao Mu has no special interest in politics, just as I have never believed that this prodemocracy movement in China was a political struggle. The epic scene was like a historic poem. As a highly idealistic poet, Lao Mu had to be a part of it, a part of the spring of poetry.

As head of the propaganda group of the Beijing Intellectuals Federation, Lao Mu, like many other intellectuals, mingled with the students. He stressed that the prodemocracy movement must be peaceful and rational, and he wanted the development of the prodemocracy movement to be a benign process. He persuaded the students to end their hunger strike, and he also worked hard to

keep the dialogue between the students and the government going, the dialogue in which the students and the government stood equal. He is by nature an honest and sincere man. He was concerned about the safety of the students and wanted to keep watch with the people at the square. Because of that, he refused to take time out to apply for a passport, giving up the chance to go to Harvard University, which had invited him to give a lecture. He just could not leave at that time.

The last time we talked to each other on the phone was in early May of this year. I relayed the message that Harvard's Fei Zhengqing Research Center was looking forward to his coming to the United States as soon as possible to give a lecture; the time and the place had been arranged, and he should keep his promise. He said, "I may not go. I cannot leave the fatherland now." He was silent for a long time. His last words were, "Beiling, you take care in the United States."

He was the first intellectual formally arrested after the prodemocracy movement. He was accused of being a counterrevolutionary instigator and plotter. What a horrible, and yet ridiculous, accusation. What horrifies me is that if an intellectual like Lao Mu, who is a gentle man and is so ambivalent and basically naive, is accused of such horrible crimes, if someone with such a simple background and unimpeachable record has to endure such adversity, what will happen to those intellectuals who are more zealous, who have a bumpier past, and who are more politically minded? I cannot bear to imagine.

#### **His Last Exhortation: Take Care**

The last time we saw each other was in September 1988. We had just finished the avant-garde poetry recital—"Peaceful Night"—two days earlier. I had accepted an invitation to go to the United States and was on the train, about to leave Beijing. Lao Mu appeared before me, his face streaming with sweat. He told me that our magazine, QINGXIANG, was ready, that it was very good, and he would send me a copy very soon. His last words were still "take care."

Yes, today I am fine—living in a strange land, but Lao Mu is behind bars. This year, he has lived more fully, and has lived a more worthy life, than I. There was a time when I envied him, because he had overtaken a glorious era. I was proud of what he had done, proud of the poet. But everything is over too soon. I was not there; I cannot ascertain what kind of impact he has had on China in 1989. I worry about him day and night, because in his last letter he told me that he was living in terror. History gave him a role he never expected to play, and everything happened because he had faith, because he had ideals, and because by nature he is a simple and unaffected man.

His arrest still has not been made public, and few people know about it. He is sufficiently well-known, but too many even better-known men have been arrested too, and so he may have been overlooked. No, people will not



forget him. He has become a symbol, a poet who has sacrificed himself for the sake of an ideal society. He is the pride of the Chinese poets.

### The Dawning of Another Century?

The short and chubby Lao Mu radiates warmth all over. He has boundless energy. He is never bothered by small matters and never worried about his appearance. He is not eloquent but is sufficiently stubborn; he is not handsome but is devoted equally to poetry and women. He can lie down and go to sleep anywhere, and when he wakes up, he is often hard-pressed to figure out where he is. He is kind and gentle to his friends. He is not a guarded person but often thinks of himself as a pretty smart guy. He is not seasoned, and, in essence, he is but a frail intellectual with scanty experience of the world. He is not poised but likes to think of himself as a poet. He is a warm-hearted person to whom, as soon as you get to know him, you can entrust yourself. He is not always reliable because he tends to be forgetful, but he is willing to accept an honest criticism.

I often thought, Lao Mu is just like the rest of us. We were not born to be the enemy of the government and the authorities. We do not look forward to adversities. All we want is a normal, free, and respectable life. What we want to do is to write and to do some abstract thinking; we want our romantic, carefree lifestyle. Why is this so impossible, so dangerous in China? Why should it cost us our lives? Why?

Lao Mu, my good brother, what can I do for you now? Friends worry about you. Harvard University is still waiting for you to come and give a lecture. YIXING magazine is waiting for your manuscripts back home. Where are you? What are you going through?

Lao Mu has left behind a poetry collection and a yet-unfinished manuscript of the history of China's vanguard poetry. There are also a few books that he edited, and there is this year's glorious experience. These are sufficient to make people think over the role the intellectuals play in China's contemporary history. It is a rich but complicated role; it is cruel, but we have not been given a choice. After a brief period of hope and glory, a deeper darkness has enveloped us. Those who are fortunate enough to survive and the unfortunate ones have formed a sharp contrast.

Finally, I want to repeat a passage by Lao Mu: "The poet stands at the end of the century. He is still singing, because he is full of love, love for mankind, for the world, for China, for his home, and for his loved ones. He asks for nothing, because by nature he is an idealist. At the end of the century, his songs can only bring the dawning of another century..."

July 1989

### Authorities Accused of Violating Human Rights

90ON00628 Hong Kong *CHIUSHIH NIENTAI* [THE NINETIES] in Chinese No 236, 1 Sep 89 pp 22-23

[Article in special column entitled "Commemorating a Hundred Days After the Massacre" by Ren Mingzhong (0117 7686 0022): "Chinese-Style Black Terror"]

[Text] Despite martial law, residents in suburban Beijing blocked the movement of army trucks. Today, everywhere the military vehicles were stopped, people are being arrested at night.

Those arrested tell of their inhuman treatment in jail. Residents near the execution ground said they saw more than a hundred people being executed one day. The Chinese people are living in black terror.

Do the Chinese have human rights? The Chinese probably have fewer rights than a dog.

Chinese-style terror is not the white terror of the fascists, nor the red terror of Stalin. It is a "Chinese-style black terror," created uniquely by the Deng-Yang-Li clique. It is "black" because today in Beijing, arrests are often made after midnight.

We all know that since "4 June" the Chinese Government has been arresting and executing people. Today, because of international protests, they no longer make public the statistics, but that does not mean that they have stopped. Secretly, they have stepped up their violation of human rights.

Below, I want to tell the true story to let every Chinese in the world and every person who respects human rights know what the Chinese Government is doing, how they treat those whom they have arrested, and how they kill people.

### In Places Where the Army Trucks Were Blocked

Those who take an interest in the events in China will remember that on 20 June the Chinese Government mobilized its Army, and the soldiers in full battle array were stopped in the outskirts of Beijing by the courageous citizens. According to reports, the first time the vehicles were blocked, it was because of two elderly ladies who happened to be out doing their morning exercise. At 0500 one morning, they saw the army trucks move in the direction of Beijing. They felt very uneasy. They knew that the students had gathered in Tiananmen Square. Could these military vehicles be going there to deal with the students? Ignoring their own safety, they lay down on the ground and blocked the way. Later, more and more people gathered around and prevailed on the soldiers and dissuaded them from moving on. As more and more troops moved in from all directions, there were also more and more spontaneous "truck-blocking" heroes.

At that time, what the people of Beijing wanted was a peaceful solution. They abhorred the government's use

of force to quell the disturbance. They soon realized that the soldiers had been deceived too, because the soldiers had not read the newspaper for weeks and did not know what was happening in Beijing. Some thought they were being sent to Beijing to take part in a "drill," a "movie," or some kind of "mission." After each side told their side of the story, on the whole, "Army and civilians were as close as fish and water." At that time, many citizens offered the soldiers a place to stay as well as food and drinks.

Today, trouble has come to suburban Beijing where the army trucks were stopped. The citizens are called "riffians who blocked the military vehicles" and who "obstructed the Army from carrying out its mission." Every night, at around midnight, the people in the vicinity can hear the police cars. They live in constant fear. Who knows who will be arrested tonight?

#### One Jailed Citizen's Own Story

The following is one jailed citizen's own story:

I was accused of the crime of blocking the army trucks and persuading the soldiers not to use force against the students. I was arrested and beaten every day. My behind is all torn up; my kidneys are ruined. They let me go, but psychologically, I am still in terror.

One night, my whole family was asleep. At around midnight, suddenly, someone pounded at the door. Several policemen and members of the curfew enforcement unit pushed their way into my house. The policeman took out a list and read my name. I was arrested, somehow, still half asleep. When I got out of the car, I was taken to a jail cell. It measured about eight square meters, and 20 people were already crowded into it. Inside, there was barely room to stand, let alone lie down. Every day, a large bucket of gruel would be brought in, and the 20 of us would fight over it. We were allowed only one minute to go to the bathroom. The toilets were far away, and we never had enough time. Every time I came back, I would hold on to my ears, because I knew I would be beaten for taking too long. Every day, we were forced to make confessions about how we beat up the PLA [People's Liberation Army]. If we refused, we would be beaten. I told them that I was just a bystander, that I only joined the crowd to persuade the soldiers not to fire at the students. They did not believe me. They forced me to confess, or at least admit that I had thrown a rock or something. They said, "If you do, we will let you go." But I would rather die than confess. The truth is, if I had confessed, they would have had enough excuse to execute me.

Do you know how they beat us? They made us lie on our stomachs; they told us not to make a sound when beaten, or else they would beat us some more. You do not know when they are going to beat you, so you just hold on and wait for the sudden stroke. They would use a long pole and beat down hard on my buttocks. Usually, a grown man can take no more than three strokes before their backsides get all torn up. In this way, I was beaten half to

death four times, and at the end, I could not take it any more. I told myself that if I was beaten a fifth time, I would confess to anything they want, because alive or dead, it made no difference any more. It hurt too much. I wanted to die. After 20 days, I confessed to nothing, and they did not have sufficient evidence. I was released. My kidneys are ruined; I can hardly sit. Every move I make, I need help from my family or friends. At night, I must sleep with the lights on. Every little movement startles me; I want to hide; I tremble all over. In the darkness, my horrible experience comes back to my mind to haunt me.

#### Jail Life Worse Than a Dog's

The following is the experience of another former prisoner:

The moment I was locked in the jail cell, I was beaten up by a group of old prisoners for a good 20 minutes. They were ordered to beat up the other prisoners, and they themselves would have been beaten if they had refused. The cell was about eight square meters; it held 20 prisoners. An iron bucket served as the toilet, and it was also placed inside this eight-square-meter cell. I lived there for three weeks and was beaten many times. They had no proof, and I refused to confess to anything. They let me out. In that place, human and animal were no different. Where is human dignity? Are there human rights?

The day after I was arrested, my family went to the public security bureau, which admitted to arresting me, but which said that I had been handed over to the curfew enforcement unit. The public security people said, "The police are responsible for arresting people; the curfew enforcement unit is responsible for dealing with them. This is division of labor. It is useless to come to us. Go home."

Because the police will still be in Beijing when this is over, they let the curfew enforcement unit do the dirty work, because sooner or later they will leave, they will simply vanish, and who will settle the score with them then? The parents and the families of those arrested worry everyday. If they are lucky, their loved ones will come home alive; if not, they will have to go to Babaoshan to collect the ashes, and for the really unlucky ones, there won't even be any ashes. When collecting the ashes, one still has to sign a confession, admitting that the deceased was a "thug," before the ashes are handed over. Or, one is forced to acknowledge that it was suicide. The families cry and yell, but there is nothing they can do. This government is ruthless. It does not treat us like human beings; we are less than a dog.

#### Massacre at Lugouqiao Execution Ground

A friend who lives near the execution ground told me that since the "June 4" tragedy, at least a dozen police cars have come to the execution ground every day; each car is loaded with 12 people. Routinely, they start executing people at 0900 every morning. One day in

mid-June, 40 police cars lined up in front of the execution ground. If each car held five people, 200 people would have been shot on that day alone. Today, many countries around the world have abolished the death penalty, and in those that still enforce it, the courts are extremely careful. But China has executed many people without a trial, without a conviction. Many names have simply vanished in this execution ground.

Today, the Chinese Government is still going all out to arrest people, execute people. Several student leaders, including Wang Dan [3769 0030] and Liu Xiaobo [0491 2556 3134], have been caught; Yao Yongzhang [1202 0516 2069] has been arrested in Shanghai. In jail, they will live the life just described. They may be sent to the execution ground any time.

In the "4 June" tragedy, thousands of innocent Chinese have sacrificed their lives. After "4 June," who knows how many Chinese are being tortured in jail or have died a needless and innocent death on the execution ground. We appeal to the whole world. We appeal to worldwide human rights organization. We demand that the Chinese Government tell the truth. How many people have they arrested? How many how they killed? We ask that the United Nations' Human Rights Organization send a delegation to China to visit the prisons. We hope that all Chinese around the world, all foreign friends, and all people who share a humanist stand strive together to stop the Chinese Government's brutal, inhuman conduct.

#### Wang Dan Advocates Freedom of Speech for Opposition

900N0062A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 236 1 Sep 89 pp 72-73

[Article by Wang Dan (3769 0030) in the "Divine Land" column: "On Freedom of Speech of the Opposition Faction"]

[Text] During China's new enlightenment movement, the intellectual elites must give top priority to freedom of speech, and they must have the courage to criticize any kind of injustice.

Without freedom of speech, the intellectuals will have no way of giving impetus to the democratization process. Unable to take an independent stand and be critical, they will never free themselves from their subservient position.

[Editor's Note: Even before the eruption of the student movement this year, student leader Wang Dan was already one of the organizers of the Beijing University student salon and student journals. The following article is a short comment taken from NEW MAY 4th [XIN WU SI], which began publication on 5 April of this year. The journal was published by Beida's Xuehai Society's Research Department on Contemporary Social Issues, and Wang Dan was the department head and chief editor of the journal. The first issue of NEW MAY 4th [XIN

WU SI] sold only several hundred copies and was not very popular. The following article of Wang Dan's was one of a handful of theoretical articles written by the students during the recent Beijing student movement. The subheads have been added by this editor.)

Freedom of speech, a principle so important that it is included even in the Constitution, has always been abused by brutal and dictatorial governments. This is demonstrated clearly in our own political situation by the illegal and brutal suppression of freedom of expression of the opposition faction by the authorities. Such suppression is equivalent to declaring that truth = the proletarian world outlook = Marxism = the party's world outlook = the party's leading organ's declarations = the supreme leader. Obviously, this principle is invalid; we will not even bother to disprove it.

Freedom of speech of the opposition faction is restricted perhaps for the following reasons:

1. The ruling party or the authorities represent the interests of the people and have a monopoly on the truth.
2. The opposition faction's ideas are ridiculous and can cause serious consequences in society, and therefore, as guardian of public thoughts, [the authorities] have the responsibility to prevent their propagation.
3. A strong opposition faction can disturb the country's peace and unity and disrupt its normal, orderly political development.

#### The Authorities Do Not Have a Monopoly on the Truth

To refute the first reason above:

A. Truth is not absolute, nor is it unique. Of course the proletarian may hold the truth, but the bourgeoisie or the minority factions, too, can hold the truth. This is what is meant by "all men are equal before the truth." Even if an opinion of the opposition faction may be clearly wrong, it will be impossible to prove that there is not a grain of truth in it, and wherever there is a grain of truth, it should not be stifled, nor should it be weakened because someone else supposedly has a monopoly on the truth.

B. If one really holds the real truth, there will be no need to suppress the opposition view. Conversely, the more widespread a falsehood, the more convincingly and widely the truth can be proven, because all truths are established amid their struggle against falsehood. Without falsehood as the antithesis, truth will lose the foundation on which it is based. Thus, suppressing the freedom of speech of the opposition faction is the sign of weakness and lack of self-confidence; it will only obstruct the propagation of truth.

C. The people's interests are pluralistic. Different classes pursue different interests. The ruling party, which represents the people's interests, cannot possibly represent everybody's interest; it can only represent the interests of the majority of the people. The rights and interests of every citizen are sacred and inalienable. There must be



channels for them to express themselves. Who can be absolutely sure that the opinion expressed by an opposition faction does not represent the interests of some people? And since there is no way of knowing, to restrict the freedom of expression of the opposition faction is to deny the people's desire to pursue their own interests.

D. No political party is made up of pure elements. In every mass political organization, there is a mix of different kinds of people, including careerists who abuse their power and distort the truth to fool the people in order to satisfy their own ambitions. Without a critical voice that comes from the outside to supervise them, these people will proceed to distort the truth even more brazenly, because even if the party has some internal restraining mechanisms, it is possible for those people to seize control of those mechanisms and render them ineffective. Moreover, in the reality of China's one-party dictatorship, it is impossible to set up an effective supervisory organ in the ruling party and make it work. In other words, limiting freedom of speech only allows the bad people who have infiltrated the party to multiply and facilitates their activities; and what is most damaging to the dominance of a party is often the corruption and darkness that are within itself, and this is especially true for a dictatorship in peacetime. Thus, suppressing the freedom of expression of the opposition faction only fosters the distortion of the truth.

E. Truth is not above criticism. The fact is, truth is not limited to the grand theoretical thoughts or principles of conduct. There is also such a nonsensical truth as "people who are full are not hungry." In the latter case, I can go the opposite way and declare that people who are full are still hungry and nobody will punish me or stop me; they might think that I am crazy and ignore me. Why? Because my kind of opposition opinion is absurd. Thus, to say that an opposition faction's opinion causes ideological confusion is to infer that at least a part of that opinion may be quite acceptable. This raises two points: 1) The minority may be holding the truth. 2) Gross absurdity need not be punished, but absurd theories that have definite value must be suppressed and punished. That is unfair. Truth may be truth, but communism alone is above criticism. That too is unfair. Such injustices are due entirely to the choices made by those who hold power, and can something that can only be sustained by force be called the truth?

#### **The Government Is Afraid of the Opposition Faction**

To refute the second reason:

A. Even if we acknowledge that the government and the ruling party have the responsibility to punish the heretics and the promoters of unhealthy thoughts and to extend so-called "political leadership," if an opposition faction is prevented from expressing and propagating its opinion, it will inevitably go into hiding. Consequently, we will not even know what kind of heretical beliefs exist. Then how can we deal with them? The prohibition of freedom of expression for an opposition faction

prevents its timely punishment, which can eventually cause ideological damage to the people—shouldn't the government and the ruling party that suppress freedom of speech be held responsible for such consequences? Thus, suppressing the opposition faction's freedom of expression is also giving refuge to erroneous thought of the opposition faction.

B. The government, as representative of the will of the people, should be built on the foundation of mutual trust between itself and the citizens. To be afraid that the opposition faction will cause ill consequences clearly is to distrust and show contempt for the people's judgment. Only a government that does not recognize the "sharp-eyed citizens" will suppress the opposition faction's freedom of speech.

C. No matter how wrong an opposition faction's opinion may be, its propagation should be allowed, because prior to its propagation, its rightness or wrongness is only the judgment of the examination organ, but the value judgment of a theory or a belief is natural and pluralistic, and we cannot let one man be the representative. For this reason, the judgment of the examination organ cannot represent the opinion of the majority of the people. Thus, only by permitting the free expression of opinion can people decide for themselves whether a certain opinion is right or wrong.

D. Freedom of speech, like personal property, is a god-given, sacred, and inviolable human right. Marx likened freedom of association, freedom of publication, and freedom of assembly (freedom of speech included, of course) to "soil, air, sunlight, and space." This metaphor is most appropriate, because it demonstrates clearly that, just as rogues, idiots, and the insane are entitled to their share of air, soil, and sunlight, even opinions that oppose the present system should be allowed to propagate freely in the existing system.

E. If the opinions of the opposition faction cause very serious ill effects, the government has the right to use its law-enforcement power given by the people to punish them later. But it should never suppress those opinions in advance.

#### **Muzzling Public Opinion Will Only Cause Upheaval**

To refute the third reason: Every political structure inevitably has many internal conflicts. Only if these conflicts interact with one another can this structure function normally. Conversely, if violence is used to support one conflict against another, it will only tip the balance, which in turn will cause social upheaval. For decades, the opposition faction's freedom of expression was suppressed and all dissident forces attacked, and we have yet to achieve a stable and unified political situation; what we have had is a decade of disturbances. Thus, only by giving the opposition faction the freedom to propagate its opinion, only by allowing the opposition party and the opposition faction within the party to exist, can we guarantee a democratic political system,

and in turn guarantee political order in society. Conversely, suppressing freedom of expression is the root cause of social disturbances.

One thing needs to be clarified here: We do not advocate absolute freedom of speech, because any kind of development necessarily has its internal constraints. It is impossible to have absolute freedom of speech. But we object to all constraints that come from the outside, especially the kind of constraint imposed on us by force.

During China's new enlightenment movement, the intellectual elites must give priority to freedom of speech and have the courage to criticize any kind of injustice, including the decisionmaking behavior of the political party and the government. This is because intellectuals can affect society only by expressing their opinion, and if freedom of expression is lost, the intellectuals will have no way of giving impetus to China's democratization process, and if they cannot take an independent stand and be critical, they will never free themselves from their undignified dependence on the party and the government. We will be no better off than we have been for the last 40 years.

**Conference Calls for Increased Rural Political Power**  
900N0161A Beijing LILUN XINXIBAO  
[THEORETICAL INFORMATION] in Chinese  
9 Oct 89 p 2

[Article by Tang Jinsu (3282 2516 5685): "Consolidate the Position and Develop the Role of Village and Township Political Power"]

[Text] The Department for Building Grassroots Political Power of the Ministry of Civil Affairs held a national conference in Beijing from 10 to 12 July 1989 to discuss theories on building grassroots political power in rural areas. More than 50 people, including officials from civil affairs departments and theorists and activists from theoretical circles, scientific research institutes, and colleges and universities, took part in the conference. The major views that were discussed at the conference on building stronger village and township political power can be summed up as follows:

The participating comrades generally felt that village and township political power is the basic form of political power in the PRC's people's democratic dictatorship. Consolidating the position and developing the role of village and township political power were felt to be matters of extreme importance in stabilizing rural areas, developing the rural economy, building democratic government faster, and deepening rural economic and political reforms.

1. On building organs of village and township power: The participants generally held the following three views on this issue: 1) Standing committees of village and township People's Congresses should be set up, the people's congress system should be perfected in rural

areas, and experiments should be allowed to be conducted at selected points until official legal provisions are made. 2) The status quo should be maintained and more standing committee chairmen should be installed to take charge of routine People's Congress duties according to the legal provisions on establishing village and township People's Congress presidiums. 3) It would be best for grassroots People's Congresses in rural areas not to have standing bodies, so as to keep the number of organs, personnel, and the burdens on the masses and the state from multiplying. Grassroots People's Congresses should hold meetings more often, or once a quarter, in order to better bring their functions and roles into full play.

2. On setting up village and township government organizations: Some comrades felt that the basic framework of a model for village and township political reform objectives should be "less government and more social involvement." The major sign of less government would be a change of government functions from "running everything" to "public supervision," and the key to "more social involvement" would be more decision-making power and autonomy. Other comrades favored changing the one person, one job division of labor structure in village and township governments, rationally setting up the necessary capable work organizations, and putting into effect a system of "appointing" and "doing." And yet other comrades felt that the method of setting the authorized strengths of village and township governments should be changed, government organizations should be independently examined and staffed, and feudal methods should be avoided in setting them up.

3. On the issue of carving up political power: Most comrades felt that the experience of Laiwu, Shandong, should be popularized to give village and township governments authority suited to their responsibilities by streamlining administration and devolving authority to lower administrative levels. Some experts also pointed out that the present carving up of village and township political power actually reflects the ideological conflict between China's traditionally centralized power and the present increasingly decentralized local power. Thus, simply devolving authority to lower administrative levels will not completely resolve this issue. Rather, the dialectical relationship between centralization and decentralization of power must be considered and studied on a deeper level. A set of qualitative and quantitative analyses should be made to decide which of the accredited village and township units in the present county-level departments should have authority devolved to lower administrative levels, which should not, and to what degree it should be devolved, instead of simply stubbornly emphasizing that authority should either be devolved to lower administrative levels or not.

4. On making village and township political power more democratic: The participating delegates generally felt that full use should be made of democratic elections in choosing the major village and township leading cadres,

that village and township governments must be made more accountable for their work, and that peasants should be able to effectively supervise the work of government organizations. Moreover, it was felt that the corps of cadres should be kept relatively stable, and that legal means should be used to adjust or change their makeup.

5. On more thoroughly exploring administrative reform of village and township political power: The following four views were held on this issue: 1) Based on the spirit of CPC Central Committee Document No. 22 (1986), that is, the circular on building stronger grassroots political power in rural areas, all relations should be rationalized, reforms, and the administrative reform of carving up political power in particular, should continue to be deepened, and grassroots political power should be made more authoritative. 2) Village and township political reforms in recent years have not yet escaped old traps, that is, they are still focused on the issue of centralization versus decentralization of power, give too much emphasis to the issue of improving administration, and have made no breakthroughs in the area of how to build stronger democratic government. Village and township

governments should be autonomous, and the dual-track responsibility system of being responsible to People's Congresses on both the higher and the same level, should be changed to being responsible only to those on the same level and implementing the national Constitution and laws in relationships with higher levels. 3) The major issue confronting grassroots political power in rural areas is rural development. The aim of rural construction is to modernize rural society, which includes factors such as rural economics, education, and construction. 4) Comprehensive studies should be conducted to coordinate village and township administrative divisions and political power in the following ways: a) Village and township political power should be based on appropriately readjusted and delimited village and township administrative divisions. b) The management scope of village and township governments must be determined both by considering historical factors, and by proceeding from the present actual village and township political, economic, and cultural conditions, suiting measures that local conditions, and establishing the number of villages that are under the jurisdiction of village and township political power.



## NATIONAL AFFAIRS, POLICY

### Free Enterprise Suggested Within Public Ownership System

900H01664 Beijing JINGJI LILUN YU JINGJI  
GUANLI [ECONOMIC THEORY AND BUSINESS  
MANAGEMENT] in Chinese No 5, 28 Sep 89 pp 1-8

[Article by Han Xiaoming (728) 1420 2494: "Choices of Direction of Economic Structural Reform"]

[Text] This should be the direction of economic structural reform in China. Replace the assortment of enterprise systems in which enterprises find it difficult to free themselves from direct interference by departments in charge above with a free enterprise system based on public ownership; replace the market price-setting mechanism based on supply-demand balanced prices with a mechanism based on relative interest balanced prices whereby the state controls prices; replace the enterprise investment loans distribution system with competition for investment loan quotas; replace the economic and cashier type of banking with noneconomic finances and regulatory banking; and replace the system in which the central government and local authorities manage the economy at different levels with one in which the economy is managed at the central and regional levels as appropriate—by Han Xiaoming, lecturer at the Economics Department of Chinese People's University

### Clarifying a Number of Views and Facts

1. The economy was indeed grossly overheated in 1988, but instead of being the cause of rising prices that year, it was the result.

Industry expanded at a fast pace in 1988. Between 1978 and 1988, industry grew by almost 8 percent each year on the average in terms of gross output value. During this period, for every 1 percent increase in the gross value of industrial output, the output of raw coal went up 0.24 percent on the average, electricity, 0.48 percent; steel, 0.48 percent, and the volume of goods in circulation, 0.59 percent. In 1988, however, each one percent increase in the gross value of industrial output required much greater increases in the use of these materials, not only higher than the average for the period concerned but the highest compared to any other year. Thus, the industrial overheating of 1988 was the worst since 1978 and was perilously close to the limits of possibility as far as economic growth is concerned. To reduce the variability of economic growth, it is necessary for us to lower the industrial growth rate by a substantial margin.

Nevertheless, it was not economic overheating which caused the steep rise in commodity prices in 1988. This is why. Economic growth suggests an increase in the aggregate supply. In the same period of time. Even if economic efficiency is lower, outputs will always exceed inputs judging from the present situation in China. And when inputs lag behind outputs, the aggregate supply still increases. The higher the realized economic growth rate,

the faster the aggregate supply will increase. So, however fast or slow the economic growth rate, it is not going to lead to an increase in the level of commodity prices. On the contrary, other things being equal, brisk economic growth will actually help lower the level of commodity prices.

The present reality in China is that the rise in commodity prices has been an important reason behind economic overheating in recent years. In 1984, enterprises were allowed to sell on their own whatever they produced above the target, pricing it within 20 percent of the state list prices in either direction. In January 1985, controls on the prices of products outside the plan were totally abolished. Consequently, prices increased three and a half times faster in 1985 compared to 1984. In early 1988, the extent of price increases broke through the double digit mark. For 1988 as a whole, price increases were more than twice as fast compared to 1987. Fueled by rising prices, enterprises motivated by profit maximization naturally went all out to increase production. Clearly the law of value was at work here.

Today many people still blame the quadrupling of output value, over-zealousness, the desire for instant profits, and the keep-up-with-the-Joneses mentality for excessively rapid economic growth, a conclusion that is obviously far removed from economic reality. In recent years, products that account for economic growth are no longer simply high-output value products but highly profitable products. Both local governments and enterprises have begun making production decisions based on profit. Consequently they have become the most powerful driving force behind rising output. This explains in part why it is increasingly difficult to make local governments and enterprises cut back on production projects and lower production rate. The fact of the matter is that in a modern market economy, rising prices are a warning signal of the possibility that the economy might be getting overheated, but they are not the consequence of economic overheating. Some economic analysts have wrongly reversed this cause-and-effect relationship between the two. On the policy level, therefore, there have been attempts to slow down economic growth in order to check the rate of price increases, with minimal effects. In the first two months of 1989, economic growth slowed markedly after almost six months of retrenchment, with the rate of industrial expansion dropping about 10 percentage points. In the same period, however, prices continued to rise sharply. Statistically, the general level of living expenses for workers in 35 large- and medium-sized cities still soared 31 percent compared to the previous year. Price inflation of this magnitude no doubt powerfully motivates enterprises to increase production. The result was a growing trend for enterprises to raise funds and circulate such funds outside the plan against the backdrop of retrenchment.

From the above analysis we can see that controlling price increases and cooling the economy are two separate matters. We can neither blame economic overheating for the increase in prices nor check price increases by

slowing down the economy. We should tackle the two—price increases and economic overheating—with different measures, instead of handling them together as if they were one and the same thing. To do the latter exacts paying an unnecessary price.

2. Judging from the production and distribution situation, the aggregate supply and the aggregate demand position should improve in 1988 instead of deteriorating.

In constant prices, the gross national product rose 25.4 percent in 1988 over 1987. Fixed assets investments and investments in projects under construction increased 18.5 percent and 12 percent, respectively, over the year before. Total worker wages and net peasant earnings rose 22.1 percent and 19 percent respectively. Total expenditures by the central government rose just 10 percent over a year ago and actually lower than 10 percent if we deduct fixed assets investments and spending on wages. This is the only case in recent years of the nominal aggregate supply increasing faster than the nominal aggregate demand.

If we discount the factor of price increases, the picture will be even clearer. In 1988 the GNP actually rose 11.2 percent, while the real gain in fixed assets investments was less than 1 percent and the real increases in workers' wages and peasants' net earnings were 1 percent and about 7 percent, respectively. Based on the price index of the GNP, government expenditures not only did not increase compared to the preceding year but actually declined 3 percent. These conditions show that the actual growth rate of the aggregate supply in 1988 was much faster than that of the aggregate demand. In other words, the aggregate demand showed no tendency of ballooning out of sight.

Let us look at some statistical indicators that reflect increases in the aggregate supply and the aggregate demand in 1988. The GNP, which reflects the increase in the aggregate supply, was 1385.3 billion yuan, while fixed assets investments, which mirror the increase in the aggregate demand, totalled 431.4 billion yuan. Assuming there were 900 million peasants, the sum of their net earnings and total workers' wages was about 721.1 billion yuan. If we subtract fixed assets investments and workers' wages from government expenditures, the remainder would not exceed 200 billion yuan. We can extrapolate from these numbers that in 1988 the increase in the aggregate supply caused by production would not be smaller than the increase in the aggregate demand caused by distribution. Thus we can hardly say that in 1988 production and distribution widened the gap between the aggregate demand and the aggregate supply formed over the years. Even if we discount the impact of the retrenchment policy in place since September, the situation would not be all that different.

The increases in the aggregate supply and the aggregate demand in 1988 caused by production and distribution have not caused the existing supply-demand relationship

to deteriorate. Clearly there is not enough evidence to support the claim that the substantial increase in commodity prices in 1988 was caused by the continuous expansion in the aggregate demand that year. On the contrary, if we notice that as early as February 1988 commodity prices were already rising at 11.2 percent and that they kept going up in subsequent months, we must conclude that the steady climb in commodity prices in 1988 forced the normal expansion rate of the aggregate demand to go up. This compensatory expansion of aggregate demand was a result and not a cause of the rise in commodity prices.

#### Rethinking the Reasons Behind the Price Increases in 1988

1. The direct cause of the sudden rise in commodity prices in 1988 was the deterioration in the market supply and demand situation. It has nothing to do with the supply and demand situation decided by production and distribution.

If we are observant, we can readily detect some notable changes in the behavior of producers and sellers in 1987-1988. In an economic environment where the aggregate demand outstrips the aggregate supply, it is normal for producers and sellers to hoard investment goods in short supply or commodities in short supply in hopes of exchanging them for investment goods in short supply. The total supply and demand situation determined by production differs from the total supply-demand situation on the market, but not by much. In the 1987-1988 period, however, the tendency toward hoarding got worse by the day, with producers and sellers hoarding large quantities of scarce commodities. As they waited for prices to go up, they banded together to monopolize supply sources and manipulate prices. The emergence of this phenomenon shows that price increases are no longer of the usual demand-driven type, but are now the outcome of artificial price-fixing. With this change in type, price increases become acute and sharp, grossly distorting the supply-demand relationship determined by production and distribution.

Because of their characteristics of acuteness and sharpness, price increases resulting from the manipulation of producers and sellers soon make interest rates on savings deposits negative, thereby prompting citizens to withdraw their savings in panic and engage in a round of panic purchasing to protect the value of their cash. The upshot is the return to the market of some purchasing power that had no real demand originally. On the one hand, hoarding by producers and sellers has made the aggregate supply on the market much smaller than the aggregate supply provided by production. On the other hand, the re-emergence of dormant purchasing power increases the aggregate demand on the market formed by distribution. Hence a drastic deterioration in the supply-demand relationship on the market.

In analyzing the above phenomenon, we often blame "official profiteers" who exploit the "dual-track pricing

system" and inappropriate decisions by consumers for rising prices, arguing that the problem can be solved if only we get rid of all kinds of "official speculation," achieve uniform market prices, and moderate consumers' inflationary expectations. People who hold this view only see the symptoms of the problem, oblivious to the fact that when you put together an economic environment in which the aggregate demand exceeds the aggregate supply and the determination of prices by the market, it becomes objectively inevitable for producers and sellers to fix prices and for consumers to think inflationary. As long as the above combination is not broken, there is no way to end price-fixing by producers and sellers fundamentally or to stop consumers from thinking inflationary.

2. The marriage between an economic environment where the aggregate demand exceeds the aggregate supply and total market price-setting mechanisms results from a mistaken choice of objectives in price reform as part of economic structural reform. It is not the result of a wrong sequence of reforms or a wrong pace of reform.

We proceeded from this model in existing economic theory—"commodity economy market regulation complete market price-setting mechanisms"—and made the establishment of complete market price-setting mechanism our reform objective. It was also thought that economic price-formation mechanisms give rise to a situation in which the aggregate demand exceeds the aggregate supply. And so we conclude that provided we establish complete market price-setting mechanisms, we will be able to balance market supply and demand through movements in price levels and actually stabilize prices, even lowering them. To make sure that prices would not rise too sharply at the beginning of the transitional period when price formation mechanisms were first formed, we came up with the dual-track pricing plan. The result of practice, however, has opened our eyes to another phenomenon: the existing situation in which the aggregate demand exceeds the aggregate supply resulted from the balance of the economic interests of all sectors over many years. It was not favorable to consumers, but so long as the prices did not change sharply, it remained acceptable to them. Behind this type of imbalance between the aggregate demand and the aggregate supply, therefore, there existed a relative balance between the interests of producers and those of consumers.

When we first tried creating complete market price-setting mechanisms, the fact that the aggregate demand exceeded the aggregate supply inevitably caused prices to go up, hence upsetting the original relative balance in the allocation of interests between producers and consumers, thus further damaging the vested interests of consumers. Given the rigidity of vested interests, consumers would naturally seek compensation in every way. For instance, they may demand pay raises, stage go-slow at work, put direct pressure on the government, withdraw deposits from banks, and engage in panic purchasing, etc. To calm the public and avoid hurting the

enthusiasm of workers, the government and enterprises have no choice but to offer consumers appropriate compensation, which at times more than offset price increases. As a result, instead of shrinking as the level of commodity prices goes up, the aggregate demand has actually kept up with it and may even overtake it. If the steady increase in the level of commodity prices has pushed production to the very limits of resource constraints, with the increase in the aggregate supply losing its price elasticity, then the attempt to create complete market price-setting mechanisms will only lead to prices and incomes rising in turns, while the aggregate demand will still continue to outpace the aggregate supply.

Even as they adhere to the established goal of reforming the price formation mechanism, some people, mindful of the consequence of combining an economic environment in which the aggregate demand exceeds the aggregate supply with market price-setting mechanism, have proposed the creation of an economic environment where there is a basic balance between the aggregate supply and the aggregate demand first of all, to be followed by the changeover to price-formation mechanisms. To these people, the fact that the aggregate demand exceeds the aggregate supply is mainly caused by a wrong choice of policy and economic development strategy. Provided we take effective belt-tightening policies to lower the rate of economic growth and limit the scale of investment and consumption, they argue, we will be able to create a relaxed environment favorable to the switch to price formation mechanisms.

Judging from the present situation in China, however, it is very difficult to create an economic environment with a basic balance between the aggregate supply and demand. On the one hand, given the fact that China's economic efficiency is low and will remain quite low in the foreseeable future, it is very hard to rein in investment demand and consumption demand because of rising population and employment pressure. On the other hand, China's present level of economic development is way below the world's average. To relieve the resultant economic, scientific, technical, and educational pressures and avoid a further widening of the gap between China and developed nations in the world, China cannot cut back on investments in the economy, science and technology, and education. Finally the current situation in which the aggregate demand exceeds the aggregate supply has been years in the making. It cannot be fundamentally altered through changes in increases in volume anytime soon. Under these circumstances, it is at best unrealistic to hope to balance the aggregate demand with the aggregate supply within a few years by lowering the economic growth rate, slashing construction investments, and limiting and even freezing incomes. And it certainly betrays a trace of impatience.

Certainly, the present excess of the aggregate demand over the aggregate supply has also been caused in part by the traditional system, so reforming the traditional system may reduce its expansion. However, the enterprise reform now under way and the separation of power



between the central government and local authorities have not gone beyond the framework of the traditional system. Instead of moderating, the aggregate demand has actually been further boosted.

First of all, enterprises are being reformed in accordance with the so-called "separation of ownership and management rights" model. Under the traditional enterprise system, the workers were owners, and the state held property rights and management rights. Our reform is to change the system into one where the workers are the owners, the state holds property rights, and the enterprise is the manager. In the latter system, with the state still controlling the enterprise's property rights, it is impossible to fundamentally put an end to either direct state interference in enterprises or enterprise dependence on the state. In effect, enterprises have become responsible only for profits, not losses, producing a gross mismatch between power and responsibilities, between interests and risks. At the same time, they have also become even more given to bargaining with the state instead of making themselves competitive on the market so as to survive and grow.

Second, the central-local power separation based on the current system of administrative division not only damages normal linkages within an economic region because of local separatism, but also precludes the rational distribution of national economic development as a result of the tendency of every region to go its own way economically. As all regions duplicate one another in projects and imports, investment demand and the demand for foreign exchange shoot up. Take 1988, for instance. While the national growth rate of fixed assets investments was significantly lower than the economic growth rate, local fixed assets investment expanded faster than the economy, pointing to a ballooning investment demand.

3. That the "double-tight" policy is in a bind is mainly the result of a misguided guiding philosophy behind its design.

Generally speaking, it is a given that when the aggregate demand exceeds the aggregate supply, the money supply exceeds the demand for money in circulation. Thus a reduction in the excessive money supply may narrow the gap between the aggregate demand and the aggregate supply. But whether or not we can reduce excessive money supply depends on three variables—money supply, money demand, and the demand for money in circulation, instead of just one, the money supply.

To begin with, the control of the money supply certainly has to do with the methods of control and the resolve to achieve such control. However, if the principal economic entities have an intense demand for money, not only will they make up all sorts of "excuses" to force an increase in money supply, but they will also compel money supply decisionmakers to comply with their wishes through assorted social, economic, and even political pressures. This being the case, even first-rate money supply control

methods and an iron resolve to control money supply probably cannot stand in the way of a rising money supply.

Second, assuming that the level of prices and the money circulation rate remain unchanged, the demand for money in circulation obviously is directly related to the economic growth rate. If the money supply is reduced in order to lower the economic growth rate, then the demand for money in circulation will also decline as the economy slows. But the excessive money supply, which is the difference between the money supply and the demand for money in circulation, will not shrink correspondingly but may actually increase. Thus tightening the money supply only slows down the economy without checking inflation.

Finally, tightening the money supply and reducing the excessive money supply are two different things. Slashing the money supply alone may in the end trim the magnitude of the excessive money supply, but the extent to which the money supply can be trimmed is conditional upon a variety of factors. Even more important, we cannot put an end to the existing excess of money supply by solely controlling the money supply without introducing monetary reform that will affect citizens' vested interests. Clearly, it is very difficult to attempt to change the longstanding phenomenon of the aggregate demand exceeding the aggregate supply by tightening the money supply.

#### Available Policy Options

1. If the above analysis is valid and if we want to further improve the economic environment and intensify economic structural reform, we must adjust the basic philosophy behind and the goals of the current economic structural reform even as we adjust the underlying thinking of the rectification of the economic environment.

This is the underlying thinking of our effort to rectify the economic environment: realizing that we should "lower the economic growth rate but not reduce the scale of expansion of the aggregate demand," we should handle the rectification of the economic environment and the correction of the overheating of the economy separately. Lower the rate of economic expansion to a more normal level, normal being the rate of economic expansion that we must maintain at the present stage and in our current situation, which is sustainable by increases in energy, transportation capacity, and raw materials. The methods of lowering the economic growth rate to a normal level mainly consist of holding circulating funds and fixed assets investments of a production nature at a level consistent with the rate of economic expansion. To narrow the gap between the aggregate demand and the aggregate supply and reduce the money supply, we must concentrate on intensifying economic structural reform and moderate the money demand expansion caused by the present system, supplemented by the tightening of

the money supply (mainly by cutting back on noneconomic and nonsocial welfare spending and nonproduction investments).

As required by the modern commodity economy, enterprises should have total decision-making power, should be completely accountable for their own profits and losses, and be completely free from direct interference by all levels of administrative authorities. At the same time, the state should have full power to ensure the effectiveness of macroeconomic management. Judging from the conditions in China today, because of the need for level-by-level management, economic structural reform in effect has broadened the economic functions of local administrative authorities and weakened the microdecision-making power of enterprises and the macroeconomic regulatory and control power of the central government by an equal measure. The resultant economic system fails to either strengthen budgetary restraints of enterprises, thus placing them directly under market competitive pressure, or enable the central government to play its macroeconomic regulatory and control role effectively. Meanwhile, it did succeed in strengthening regional structures not consistent with the optimal development of the national economy. Economic structural reform along these lines would only be confined within the framework of the traditional system and will not lead to a socialist commodity economy. To adjust the underlying thinking of economic structural reform is to reject the existing economic reform, weaken the economic functions of local administrative authorities, and reform the economic relations between state and enterprises, between central government and local authorities in accordance with the requirements of a socialist commodity economy.

2. Scientifically determine the necessary-possible range of economic growth at present. This range of one of the basic pieces of data for calculating accurately the short-term money supply.

The necessary-possible range of economic growth rate is the normal variable range for economic expansion. The lower end of the range denotes the rate for normal economic growth necessary for accommodating the increases in population and work force and ensuring normal economic and social development and a rise in living standards. In determining the necessary growth rate, of course, we must also take into consideration the drop in marginal benefits as the economic growth rate declines. If the economic growth rate remains persistently lower than the necessary growth rate, it is a sign of economic stagnation. The upper end of the range for normal economic growth indicates the economic growth rate sustainable by the available resources and productive capacity without exacerbating economic fluctuations. If the economic growth rate remains persistently above the possible growth rate, it is a sign the economy is overheated.

Between 1978 and 1988, China's national income increased 9.3 percent annually on the average and

between 7 and 11 percent during most of the years. Industrial output increased 12.9 percent annually on the average. Our experience is that it is more normal to maintain the real growth rate between 9 and 11 percent. Compared to these numbers, while the national income for 1988 was only marginally higher than the possible growth rate, its 20.7 percent industrial expansion rate was a sign of overheating. In the first 2 months of 1989, the industrial expansion rate hovered around 8 percent. That too was abnormal. It would be more appropriate, therefore, to maintain the money supply in 1989 at a level consistent with 11-13 percent expansion in industry, sustainable by projected increases in energy and raw material production.

3. The establishment of a free enterprise system on the basis of public ownership is fundamental to stiffening enterprise budgetary restraints and overcoming myopic enterprise behavior through the pressure of market competition.

So-called free enterprise system on the basis of public ownership refers to a socialist enterprise system based on public ownership in which enterprises operate as independent entities with property rights, exercise decision-making authority, practice independent accounting, and are responsible for their own profits and losses. Such an enterprise system requires enterprises to be completely market-oriented in their production activities and rely fully on their own resources to raise production and development funds. As micro-organizations compatible with the socialist commodity economy, such enterprises are not subordinate to administrative agencies and economic departments in charge at any level. As a matter of fact, the free enterprise system is the common goal pursued by people who otherwise have quite different ideas regarding enterprise reform. For a variety of reasons, however, a spectrum of enterprise organizational forms have appeared that run the gamut from the contract system to enterprise privatization.

The key issue here is whether the free enterprise system can be built on public ownership. Traditionally people have always associated the free enterprise system with private ownership, theoretically because they have not separated enterprise ownership rights from property rights and practically because the free enterprise system first appeared in a private economy, a fact which has prejudiced them. Now that we are able to separate ownership from property rights in theory, we can truly grasp the essence of the free enterprise system. Certainly, even more important, the purpose of the free enterprise system is to emphasize the market restraints of enterprise behavior. In a modern economy, market restraints of enterprise behavior are even more effective than ownership restraints. This is also an important way in which the modern commodity economy differs from the early commodity economy.

4. In the free enterprise system based on public ownership, prices are a very important market signal to the producer. In an economy where the aggregate demand

exceeds the aggregate supply, however, the market pricing mechanism cannot function in a way that would enable prices to reflect the supply and demand situation on the market accurately. Thus, supply-demand balanced prices are hard to achieve. Under these circumstances, we can only give up the total market pricing mechanism based on supply-demand balanced prices and seek other forms of prices and price-formation mechanisms.

Practice of the modern commodity economy tells us that there are actually two kinds of signals on the market: price signals, such as prices and interest rates, and nonprice quantitative signals, such as orders, inventories, market shares, and investment quota. Both types of market signals have an impact on decisionmaking at principal microeconomic entities. In a modern commodity economy, owing to the complexity of market relations and price-fixing by principal economic entities, price signals on the market not only lack elasticity but have also become less and less up to date. Under these circumstances, as far as the economic entities are concerned, price signals can at best serve as a yardstick for measuring the extent of the realization of interests, not a "barometer" that mirrors the supply-demand situation on the market. Meanwhile, principal microeconomic units are turning more and more to quantitative signals as a guide in decisionmaking. Hence the formation of mechanisms that regulate resource allocation with quantitative market signals.

In the Chinese socialist commodity economy at the present stage, we cannot let the market alone set prices in order to prevent price levels from climbing in an economic environment where the aggregate demand exceeds the aggregate supply. The state must control the rise in the level of prices. At the same time, however, in order to accommodate the need of interenterprise resource allocation under the free enterprise system, we must make use of the regulatory function of market mechanisms. Thus, the only available option is a dual market mechanism in which price market mechanisms regulate the distribution of interests between economic entities and quantitative market mechanisms regulate the allocation of resources.

5. The use of the price mechanism to regulate the allocation of interests between economic entities requires a rational price system that reflects a pattern of economic interests acceptable to different economic entities.

Because of an array of conditions, this pattern of economic interests is not one where all economic entities obtain an equal amount of interests. Consequently, the price system that reflects this pattern of economic interests is not based on value or production prices. Instead, the principal point of reference for this price system is opportunity costs and current and relatively stable pattern of economic interests. Since this price system does not recognize the equality of interests between economic entities and, on the contrary, embodies the discrepancy

of their interests, the prices in their system are merely prices of the relative balance of the distribution of interests. The effect of this system on the allocation of resources is only one of preventing their reverse movement. Under the free enterprise system, the state should no longer directly control the total amount of enterprise consumption funds. Each enterprise should have the power to determine on its own its wage levels and specific forms of wages provided it complies with the consumption fund rate of its own industry. The state guides the circulation of labor between different sectors through its regulation of the consumption fund rates of different industries.

6. The relative interest balanced price system on the commodity market is based on the differences between the consumption fund rates of the various industries on the labor market. The so-called industrial consumption fund rate is the share of a worker's average wage and collective welfare as a percentage of net output value per capita for that industry. It is determined by a variety of factors, including the work nature and social evaluation of the industry involved and pattern of economic interests acceptable to workers, as well as the macroconsumption fund rate in society. In a socialist commodity economy it is a major point of reference for the state as it indirectly controls the scale of enterprise consumption funds.

7. In an economic environment where the aggregate demand exceeds the aggregate supply, a key quantitative signal for regulating inter-enterprise resource allocation is the industry investment loan quota on the money market.

The so-called industrial investment loan quota on the money market refers to the quota for investment loans available to each industry on the money market that is determined in accordance with the national economic development plan and the requirements of the industrial policy. What distinguishes the investment loan quota is that it is a quota for a specific industry, not a particular enterprise. Any enterprise has the right to compete for investment loans on the money market provided such loans fall within the set industry quota. The state would no longer directly hand down a borrowing plan to each enterprise. Clearly, the investment loan quota system leaves the decision-making authority of the enterprise intact even as it ensures the realization of the state industrial policy and wards off an investment and credit explosion.

Right now two conditions must be satisfied before we can implement this system. First, all investment activities in society must be centralized in the hands of special investment banks. Stocks and bonds issued by enterprises should be incorporated into the industry investment loan quota. Second, the competition for investment loans should be open. In other words, the special investment banks should make public the investment loan quotas for the various industries while enterprises in the bidding for loans should do likewise with their



financial conditions. Finally, investment banks should make public the terms of bidding of and the amount of loans granted to enterprises that have competed successfully for loans as well as the repayment and compensation regulations in order to facilitate supervision by the industry itself or by outsiders.

8. To go hand in hand with the industry investment loan quota system mentioned above, the construction bank should gradually be converted into a special investment bank to be fully in charge of all fixed assets investment activities in society. The Industry and Commerce Bank, on the other hand, should be responsible only for the circulating fund lending activities of enterprises. Such an arrangement would help separate the adjustment of economic growth rate from the adjustment of the monetary policy which regulates investment demand.

Even as we completely separate investment banks from commercial banks, we should gradually de-economize government spending. That is, we should make government finances noneconomic. Government spending at all levels should be in public facilities and public undertakings within an appropriate scope, while funds to be spent on production and construction should be totally managed by banks. As we establish a banking system on an equal footing with the government fiscal system, where the chain of command runs vertically from top to bottom, we should separate administrative management agencies from economic management agencies and make them co-equal at each level, also with a chain of command running from top to bottom.

9. China's vast size requires us to manage the economy at the local as well as central levels. Current administrative divisions, however, are grossly out of step with economic divisions, so that local economic management and local administrative management cannot possibly both take place in the same areas. Thus we must separate local administrative management from regional economic management. In other words, local administrative machinery should be set up based on existing administrative divisions, while regional economic management machinery should be set up in larger economic regions, with no lateral relationship between the two.

With local administrative management separate from regional economic management, there should be a division of labor between the central and regional economic management organs depending on the market conditions of different commodities. The present situation in China is that a unified national market is needed for some commodities, primarily capital goods, commodities of a monopolistic resource nature, and commodities with a longer life cycle. Industries that produce these commodities should be managed and regulated by central economic management agencies. And then there are some commodities, primarily nonmonopolistic and consumer commodities and articles of daily consumption, for which there is no need to form a unified national market right now. In any case, limited transportation capacity precludes the formation of such a market. Industries that

produce these commodities should be coordinated and managed by regional economic management organs. Moreover, regional markets for such commodities should be set up. At a time when the transportation system is under severe strains, we may even erect regional market barriers for these commodities to limit their interregional movement.

(Note: All data in this article are based on statistical yearbooks and other relevant information released by the State Statistical Administration or are extrapolated from those sources.)

### Problems, Solutions in Enterprise Merger Operations

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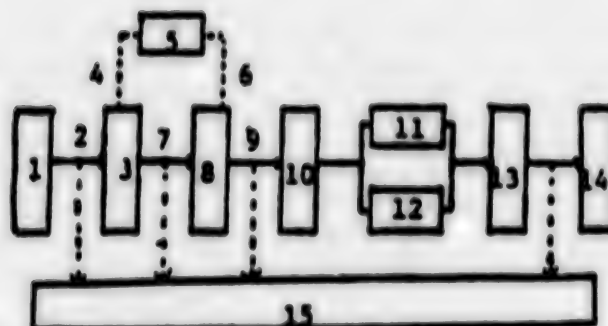
[Article by Tan Xianrong (6223 7359 2837) and Liu Guibin (0491 6311 1755)]

[Text] Enterprise merger, a new form of transferring property rights, has emerged in the course of deepening the reform, and has already displayed great vitality. To correctly carry out enterprise mergers, Wuhan Municipality, as the first to do so, established in May of 1988 an "enterprise merger market office." The office is being jointly run by six departments, namely the departments of finance, banking, taxation, audit, labor, and industry and commerce. It provides information and a locale for enterprise mergers, and enhances the efficiency of these operations, so as to facilitate the healthy development of enterprise mergers. How does an enterprise merger market operate? This is a question that is given widespread attention.

### I

The Wuhan enterprise merger market displayed great vitality right from the start, and when in the past certain matters required "seeking out the mayor," it is now a matter of "seeking out the market." During the first five months of 1989 alone, transactions were handled for 29 households, involving property transfer of over 23 million yuan in value, debt assumption of over 24 million yuan, absorbing losses of over 6 million yuan, and placing almost 5,000 people in jobs. The initial advantages that the system displayed were: 1) it broke down boundaries between departments, ownership systems, and regions, and reduced unnecessary administrative interventions; 2) it proved beneficial in allowing both parties to the enterprise merger to choose alternative partners over a comparatively wide range and enhanced the optimum coordination in enterprise mergers; 3) it created favorable conditions for normalization and procedural orderliness in enterprise mergers.

From this we see that operations of an enterprise merger market are still under external restraints by the economic system that has not yet been transformed into the new system. In addition, there are imperfections in the



1. Enterprise
2. Application
3. Merger market
4. Not qualified
5. Rejection
6. Not qualified
7. Check by higher authority
8. Municipal Commission for Economic Structural Reform
9. Official reply
10. Merger market
11. Enterprise taking over by merger
12. Enterprise being taken over by merger
13. Notarization of agreement by merger
14. Implementation
15. Procedure barred by intervention of regional authority or dept.

internal mechanism. All these are causes of many difficulties and problems that still have to be resolved, the major ones manifesting themselves in the following aspects:

1. The ill-defined nature of merger. According to the procedure of the merger market, enterprises may merge if and when their application has been checked and approved, but the departments in charge think that authority to decide whether the property transfer shall go through should rest with the departments in charge, who will frequently appear on the scene to intervene. On the other hand, due to the absence of the owner of the property right, the merging enterprise will not be able to acquire rights to the new property, with the result that there is no assurance that the transfer fees will be paid, and this again will for a certain time delay the effectiveness of the operation in the enterprise merger market. There are also cases where the merging enterprise uses state funds or the pre-tax loan repayment part of credit funds, or tax reduction and yielded profits, to pay the transfer fee, designating such money to be property owned by the enterprise itself. As a result, the ownership

of the transfer fee becomes monopolistic in nature, and the ownership of the newly acquired property becomes uncertain and ill-defined.

2. Contradictions between the merger agreement and any former contract undertaking or lease agreement. After the former contract undertaking and lease agreements have been legally notarized, these contracts have legally binding force. If the enterprise is now taken over by merger, and if the former contracts are not invalidated, this will cause legal disputes. If the former contracts are first terminated, there may be intervention of an administrative nature. Even if there is consensus to terminate the contracts, it will require time and energy, and moreover after dissolution of the contracts, the authority to act as representative is cancelled, and the plant director of the enterprise being taken over in the merger will have no authority to sign the official merger agreement. This poses undoubtedly a big difficulty for the merger of enterprises with contract obligations and for enterprises under lease.

3. Irrational appraisal of assets and prices. The present assessment of assets in the enterprise merger market

generally takes the book value as decisive and takes a limited inventory. Add to it the fact that the enterprise being taken over will render only little assistance, the establishment of assets through physical inventory will not be very thorough and not comprehensive. Moreover, price determination also omit market fluctuations, land prices, and other such factors. This will result in irrational prices, and, as a consequence, the functions of the merger market by far not be effectively and fully brought into play.

4. The prevalence of horizontal and vertical blockades, and the weakened effectiveness of merger market agreement. Although Wuhan Municipal government clearly stipulated that once the merger is verified by the enterprise merger market and checked and approved by the structural reform committee of the municipality, it may be carried out, some departments and regional authorities have ways of their own to handle the situation differently: They will withdraw and change plant directors, and leave them without powers to sign any agreements; they will refuse to dissolve the original contractual undertakings or lease agreement, will not complete the industrial and commercial procedures, and will not transfer party and youth league relations. Some would even go so far as to remove the official seal and accounts books of the enterprise to be taken over, making it impossible to complete merger procedures. In this way, the enterprise merger market is bereft of all effectiveness. The operation of the enterprise merger market suffers administrative interferences by the departments in charge of the enterprises and by local governments at all levels, so that implementation of some effective mergers had to be stopped, and the situation was such that although there was a market, it was impossible to solve problems in reliance on the market.

5. Because after the merger there are the complexities of paying the transfer fee, the effective date for the investments of the enterprise being taken over, the extraneous encumbrances of the enterprise being take over, and other such difficulties, it is impossible for the merging party to take over within the near future. On the other hand, the merger market can also not give the enterprises any appropriate short-term preferential accommodation according to the industrial policy of the state, and, under the present conditions of stringency, fully utilize the available stock of assets to increase effective supplies and alleviate the present supply-demand contradiction which is daily growing more serious. Moreover, there still exists no feasible method to transmit the state's economic development strategy, especially its industrial policies, to the enterprises to constitute the needed regulatory mechanism.

6. Dilemma of the property tax. As the enterprise merger market, according to market policy, carries out mergers across the borders of regional, departmental, and ownership systems, it may get into conflict with the gradient of the regional financial systems, departments, and ownership systems. Enterprise merger will lead to changes in the total amount and regional location of enterprises

profits and taxes to be turned over to the state. How to newly coordinate the new interest relations is something the enterprise merger market cannot possibly accomplish. On the other hand, mergers will also lead to a decline of financial revenue because profits from enterprises will have to make up for losses of the enterprises that are being taken over. Besides, the enterprise merger market will have carried out an assessment of the enterprise property, and will also have carried out a classification of the property, which would objectively demand a differentiated treatment of different types of property, while the current system of administering public finance will hardly be able to comply with this demand.

In seeking ideas for a solution of the problems, we must analyze the inherent causes.

First, there is the problem of property right which have caused friction with the operation of the enterprise merger market. For many years, we have instituted various reforms to enhance enterprise vitality, but have never solved the problem of the break-up of property rights, thus causing a gap between the responsible body and the body in name only, actually creating an absence of a main component to handle the property rights. At present, the property right of all enterprise properties owned by the people is a pluralistic system jointly constituted by public finance, department in charge, and enterprise itself. Because there is no clear-cut division in the restrictive relationship of the responsibilities, rights, and interests, there have occasionally occurred instances of irrational phenomena in merger activities. An enterprise merger is first of all a kind of remunerated transfer of property. But in the absence of a property-right components to supervise, it leads not only to illegal merger, but also to administrative interference, accompanied by irrational economic coercion, collecting under-terminated property right transfer fees at will, monopolizing claims to transfer fees, and uncertainty of the newly added ownership rights.

Second, the mechanism itself for the operation of the enterprise merger market has not yet been perfected. Because of still very limited knowledge about the effects of the operational mechanism of the enterprise merger market, capability of operating the market mechanism is still unsatisfactory. On the other hand, it was unavoidable that some irresponsibility and disorderly action occurred in enterprise mergers because of the increasingly complex environment and the confusion in the course of the reform of the economic structure, in addition to the fact that the necessary legal norms had not been promptly provided. The present enterprise merger market still lacks appropriate measures to enable it to exercise guidance, and to regulate and control. At the same time, market technicalities have not yet been normalized. It is therefore not only impossible to provide effective pre-merger services, making it difficult to rationally solve such technical problems as price determination during the merger process, but also impossible



to make forecasts and assessments of the effectiveness of the merger, never mind the possible effects of the market by such inability.

Third, the opposing interests of departments, regions, and ownership systems are also having a strong influence on the operation of the enterprise merger market. Because the financial system at present is of a regional nature and "largely divided up under contracts," enterprises are the foundation of all revenue sources of public finance. The governments of all levels (including subdistrict offices) are all unwilling to let go of their particular "milk cows." At the same time, enterprises are the source of "unofficial wealth" for the departments in charge, so there is a reluctance to have enterprises under one's jurisdiction merged into enterprises of another department. Besides, enterprises of different ownership systems have also differences in their financial systems and taxation methods, which in turn affects a realistic implementation of enterprise mergers.

Besides, there is insufficient coordination and mutual complement between financial, tax, and banking units, which in turn affects capability of the enterprise merger market to regulate and control. Under the current labor and personnel system, the enterprise merger market will hardly be able to organize enterprise mergers, according to market principles and starting out from the optimum coordination of key elements of production. Moreover, the present social mentality makes most of the unprofitable enterprises unwilling to allow themselves to be taken over in mergers, which narrows the scope and limits the functions of the enterprise merger market.

## II

In order to resolve the contradiction in China between the generally limited increase in investments and the partially idling stocks of social property, the enterprise merger market is promoting the optimal disposition of the key elements of production, a state of balance in the economic system, and effective measure that will direct enterprise reform toward some forms of shareholding. The enterprise merger market is also beneficial for the regulation of the consumption level, for expanding effective supplies, and for improving the economic environment and rectifying economic order.

To sum up, to perfect the functions of the enterprise merger market and to build up a dynamic mechanism for enterprise mergers as well as a restraining mechanism, market mechanism, and regulatory mechanism, it is necessary to start out working in the following directions:

1. Implement well the rights of the enterprises, carry out the division of the enterprise and its property rights, improve the management of the state-owned properties, and gradually promote shareholding systems.

The essence of property right is ownership of property, and the crucial factor that determines solution of the problem involved here is the source of the property.

Today's property right in China is still at the stage of "unison of government and enterprises." In the actual operation of property, we have to acknowledge the existence of enterprise property, and in administering it, we also have to treat it in a differentiated way.

After the break-up of property rights, there will be two main property components. At the time of an enterprise merger, the fee for the remunerated transfer is paid out of the funds owned by the enterprise, and the property gained becomes property of the enterprise. If a loan was obtained to make the payment, the part repaid before taxes will be proportionately discounted and the property divided as partly enterprise property and partly state property, and the part for which there had been tax reduction and yielding of profits will be state property. On this foundation, the integrity and proliferation of state-owned property must be ensured, and its use must also be periodically checked and investigated.

2. Energetically fostering enterprise merger markets, perfecting enterprise merger mechanism. The transition of the state's macroeconomic regulation and control from a unitary plan model to the system of "the state regulates the market and the market guides the enterprises" has the purpose of fully bringing into play the function of the market in that it comprehensively coordinates the economy. As to enterprise mergers, it is necessary to promote their rational and orderly development, following the principle of competition and the use of market mechanism. It is therefore necessary to set up and complete as soon as possible a property assessment system, a consultation system, and a system that will "hang out the shingle" and enter the market, also a price-setting system, and an information center informing on enterprise business conditions. If the market is left incomplete, if market prices are distorted, if the market is organized in a slipshod way, if market regulations are contradictory, and if price determination is irrational, this is bound to lead to a chaotic disorder in enterprise mergers. In particular, for the determination of prices it is necessary to establish as quickly as possible a set of fairly complete price formation mechanisms, which should include government participation, intervention, and supervision in determining transfer prices.

3. Using legislation to formalize enterprise mergers. As enterprise mergers create intense economic behavior, it is bound to touch on the property rights and interests of the two entities coming from two different economic interests. This demands that the operation of the enterprise merger market handle the relations, carefully and appropriately, of rights and duties between state and enterprises, between enterprise and enterprise, and between enterprise properties of different ownership systems. After a merger has taken place, there may arise a whole series of problems such as a change in property ownership relationship, in distribution relationship, in the transfer of the main system of the property rights, and the various legal implications in the implementation process: all must be regulated by economic laws. It is therefore urgent to establish legal provisions concerning

enterprise mergers on the basis of the "Bankruptcy Law." These provisions require clear regulations on property-relations adjustments, procedures for enterprise merger marketing operations, management and dispute settlements. Where the state has not legislated, local governments should issue provisional regulations providing guidance on the procedures and clarifications on the enterprise merger markets.

4. Reforming the current system of financial management, adapt to the development of enterprise merger markets. First, it is necessary to reform the current financial management system by instituting a "separate accounting system" with separate accounts for state-owned properties, corporate-owned properties, and individually-owned properties, and by instituting corresponding reforms for cost accounting and for profits and taxes to be turned over to the state. Second, reforming the current system of tax revenue administration and the taxation system, abolishing the irrational sections of the current tax organizations, which are creating difficulties for enterprise mergers. In coordination with the gradual straightening out of property right relations, we should abolish the pre-tax repayment of loans, plan tax categories and tax rates on the principle of fairness and effectiveness, unify the tax system, prior to taxation list expenditure norms and tax reduction or exemption provisions, and tighten up on the collection and administration of tax revenue. Third, we must reform the current budget control system which is now characterized by its regional nature, eliminate the selfish departmentalism of local authorities and departments created by the differences in rank of the finance authority under whose jurisdiction the enterprise is placed, and promote the improvement and development of enterprise merger markets. On the basis of a scientific arrangement of tax categories and clarified tax revenue relations, we must institute a "differentiated tax system and graded finance systems," which on the one hand will ensure revenue for the central government and on the other hand will stimulate local enthusiasm, achieve mutually beneficial restraints between the central authority and the local authorities, and between departments, thereby eliminating the interference by the regional budget control systems on the improvement and development of the enterprise merger market.

5. Market trend of the enterprise mergers and policy relay. The close relations between the management of the enterprise merger market and the various functional departments.

First, enterprise mergers lead to mobility in the stocks of social assets, which demands regulation and control of enterprise mergers by implementing the state's economic development strategy and industrial policies. Second, industry and commerce, the judiciary, and audit departments must provide relevant services. We must demand speed, fairness, and quality in such matters as liquidation of assets, calculation of prices, enterprise registration, managerial style and scope, and notarization of enterprise merger contracts, reducing to a minimum the

time lag in enterprise merger, and promoting the excellent operation of the merger markets. Third, relevant policies must be established in finance, taxation, and credit in accordance with the needs of the economic development strategy and in property right development strategy. This policy must, furthermore, be relayed to the enterprises through the enterprise merger market, so as to create an external environment of fair competition that will mobilize profits, form an external pressure and an internal motive force to expand the good enterprises.

Because it is a new thing, enterprise merger market operations must be further perfected in many respects. Among the most important needs is to find ways of complying with the historical trend of deepening the enterprise reform, and, according to market principles and methods, to unceasingly improve marketing means in order to promote a healthy development of enterprise mergers.

#### **Evaluation of Factory Manager Responsibility System**

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[Article by Chen Zhong (7115 6850) and Huo Xinyi (7202 1800 0001): "Evaluation of Factory Manager Responsibility System Explained"]

#### **[Text] Chinese Enterprises Have Spent Years Searching for a Leadership System**

After 1953, state-owned enterprises in some areas introduced the "one manager system" under which the factory manager was the highest authority in enterprise work. Since 1956, the factory manager responsibility system under the leadership of the party committee was widely introduced in enterprises across the nation. After the 3d Plenary Session of the 11th CPC Central Committee, as economic structural reform was steadily intensified, problems in the original enterprise leadership system—lack of differentiation between party and government functions and the fact that the duties of each person were ill-defined and that what was known as collective leadership in name actually meant that no person was responsible—cried for changes. In 1980 Comrade Deng Xiaoping called for "considered systematic changes in the factory manager responsibility system under party committee leadership." After several years of discussion and preparation, and learning from the experience of pilot projects, the CPC Central Committee and the State Council formally promulgated the "Three Regulations" in September 1986 which established the factory manager responsibility system. The "Enterprise Law" adopted by the first session of the 7th National People's Congress [NPC] on 13 April 1988 legally conferred the legal person status on enterprises.

In the past few years, most state-owned industrial enterprises have introduced the factory manager responsibility system. What are the results? What do the three sides—party, government, and workers—think about it?

Drawing upon studies and investigations, this article offers some views on these issues.

### **Factory Manager Responsibility System Must Be Understood in an Overall Context**

As an enterprise leadership system, the factory manager responsibility system cannot simply mean a system where everything is decided by what the factory manager says. Such an interpretation would lead to biases and antagonism in enterprise work. The contents of the factory manager responsibility system are determined by the basic missions of Chinese enterprises, which include the following: an all-out drive to develop productive forces, thus providing society with good-quality products and services; strict adherence to the line, policies, and principles of the party and the laws and regulations of the state; assurance of power for workers to be their own master and the power of democratic management; and an active effort to promote socialist spiritual civilization. To ensure that these missions are carried out, we cannot rely on the manager alone. Instead the initiative of the party, government, and workers must be unleashed. According to relevant provisions in the "Enterprise Law," the factory manager responsibility system can be summed up as follows: the factory manager assumes overall responsibility, the party committee guarantees supervision, and the workers exercise democratic management. This is basic to an understanding of the factory manager responsibility system and is vital to its implementation.

Our understanding of the system can be summarized as follows:

*The factory manager assumes overall responsibility.* In other words, he must come to grips with the construction of both the spiritual and material civilizations. Planning must be unified, as must leadership. Thus we must be demanding regarding the caliber of a factory manager. He must be highly qualified politically and has considerable talents for business decision-making. Only if he has these qualities would he be able to live up to his job. That some factory managers abuse their power and even drift into economic crime is inseparable from the emphasis of the selection process on managerial abilities and its disregard for political qualities. We should learn a lesson from this. Problems created by man must be separated from problems caused by a system. The former is no reason for rejecting the factory manager responsibility system.

*The party committee guarantees supervision.* This is something new. It means that the party committee ensures that the policies and principles of the party and government are implemented within the enterprise. How does the party committee go about ensuring supervision? In the experience of some enterprise party committees, the party committee first must come to grips with party construction, make sure that party members live up to their exemplary vanguard role, and vigorously publicize the party line, policies, and principles. Second, it must

carry out ideological and political work in conjunction with the enterprise's core work, and tackle the construction of the spiritual civilization. Third, it must combat illegal behavior and violations of discipline.

As for democratic management by workers, that has been clearly defined in the "Enterprise Law." We discovered in our studies that the key to achieving democratic management is whether or not the workers' representative assembly has power, whether important enterprise decisions are submitted to the assembly for its consideration, and whether channels exist for transmitting the opinions and suggestions of workers. In most enterprises in our study, democratic management by workers is based on law and regulations and takes a variety of lively forms. In these enterprises democratic management has become institutionalized and diversified. But there are also a few enterprises where democratic management has been reduced to formalism; workers there do not have the real power of democratic management, which has dampened their initiative.

### **Making Sure the System Works Effectively**

To make a system work effectively, we cannot rely on the initiative of some people. Instead we must mobilize the enthusiasm of all parties concerned and make the system work through coordination and cooperation. Given the reality in Chinese enterprises, whether the factory manager responsibility system can function properly depends on straightening out the relations among the three sides—the party, state, and workers—in understanding and in practice. We have learned the following basic lessons from enterprises where the system works fairly well.

First, responsibility must be clearly delineated and everybody must know his place. Since the party, government, and workers differ in organizational nature, it follows that each plays a different role and occupies a different position in the factory manager responsibility system. As representative of the enterprise as a legal person, the factory manager is at the center of enterprise management and decisionmaking. He assumes the heavy responsibility of tackling the "two civilizations." The party committee is at the core of political work inside the enterprise. Its responsibility is to ensure that party and government policies and principles are implemented within the enterprise and to supervise such implementation. It supervises the party spirit, party style, and party discipline of party members, especially cadres. The workers' representative assembly and its operating arm—the trade union—are at the center of workers' organization. They are responsible for democratic management and democratic supervision. Once every side has clearly defined responsibilities and knows its place, we can then give everybody a free hand to carry out its duties revolving around the enterprise's core work, achieving cooperation through specialization and pursuing the best overall results. That way we can overcome our habit of assessing a system in terms of so-called "gains and losses," which shows a narrow way of



thinking. It can be said that putting everybody in his right place is the organizational guarantee of the factory manager responsibility system.

Second, firmly instill the notion of the enterprise as a community of shared interests. "If the enterprise thrives, I am honored. If it flounders, I am ashamed." Everybody who works in an enterprise must solidly think of the enterprise as a community of common interests. Whatever the system and despite their different lines of work, the party, government, workers, young people, and women must function revolving around this community of interests—the enterprise—and make its development their top priority. The development of the enterprise should be the common objective of the party, government, workers, young people, and women. Enterprise leaders must intensify the cadres' sense of responsibility so that they put responsibility above everything else. Third, we must not ignore harmony among the individuals concerned. A bad system naturally causes no end of trouble, but even a good system cannot overlook the human factor. It takes human beings to implement and operate a system. From what we discovered in our survey, whether or not the factory manager responsibility system functions properly has a lot to do with how well leading cadres get along with the others. If there is no unity among the party, government, and workers, if they do not get along well, then conflicts will multiply and instead of pooling their forces, they will spend their energies on internal bickering. The managers of many outstanding enterprises who have studied this matter closely think that straightening out the relations among the party, government, and workers is what makes or breaks the factory manager responsibility system.

"If the three cooperate, their relations will be harmonious. If people all work with one mind, the enterprise will flourish." This is a scientific generalization.

#### How To Strengthen Enterprise Ideological and Political Work

As the most crucial part of enterprise management, enterprise ideological and political work plays an enormously important role in the operations of the enterprise and in the way it fulfills its social responsibility. Let us divide enterprise ideological and political work into two parts: a molding part, which deals with basic theoretical education, and a transforming part, which is related to the practice of production and operations. From what we have seen, the first part has been played down in the last few years while progress has been made in vitalizing the latter. In the days ahead we should emphasize basic theoretical education. For instance, in the past, some enterprises ran enterprise political schools to teach party history, modern history, revolutionary history, and other relevant social science knowledge to batches of party members, cadres, and workers in turns. The results were very satisfactory. This is an effective method and should be continued steadfastly.

Ideological and political work is the basic guarantee of enterprise work. The factory manager assumes overall responsibility for it with the party committee being in charge of it. This requires the manager, as the head of a socialist enterprise, to do more than fulfill production tasks. He must also train the corps of workers, thereby turning out qualified personnel as well as merchandise; in other words, tackling the two civilizations at the same time. This is something the head of a socialist enterprise is duty-bound to do. He must think along these lines and have the requisite boldness of vision.

Ideological and political work requires joint management. The ideology of workers is not an abstract matter, but is intimately related to actual production and operations in a myriad ways. Enterprise ideological and political work therefore is not just a matter for cadres in political work, but must be managed by the party, government, and workers working together. Thus every leading cadre in an enterprise is responsible for ideological and political work, doing such work from a different perspective. Only cooperation can produce results. A cadre with no aptitude for ideological and political work is an incompetent cadre, one unfit for his job.

Certainly, there are still some problems in the implementation of the factory manager responsibility system that deserve further study. For instance, how to strengthen the system's restraining mechanisms? It is undeniable that after adopting the system, the managers of some enterprises, particularly small enterprises, have abused their power by acting in a dictatorial and arbitrary manner and practicing nepotism. They often pay no attention to enterprise ideological and political work and ignore the rights of workers. These problems are indeed the result of personal qualities. But even more important, we must solve them institutionally by beefing up weak restraining mechanisms. As long as these mechanisms are not strengthened, myopic enterprise behavior cannot be changed fundamentally and will seriously undermine the enthusiasm of workers, to the detriment of long-term enterprise development. In addition, how to reconcile the center with the core and how to assign political work cadres are also issues that need to be addressed urgently.

## PROVINCIAL

### Planning Commission Reports on Shanghai Economic Outlook

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[Article by Zhou Xiaolong (0719 1420 7893) and Jin Zhongyuan (6855 6850 3293), Planned Economy Research Institute, Shanghai Municipal Planning Commission; responsible editor, Gong Xuelin (7895 7185 2651); "Shanghai's Economic Situation During the First Half and Outlook for the Second Half of the Year"]

[Text] The start of 1989 found Shanghai's economic development in an unprecedented dilemma: there were shortages of coal, electric power, capital, foreign exchange, and of major raw materials, while the prices for the means of production had shot up tremendously. Since April, various new difficulties arose one after the other: There were the adverse effects of the turmoil and in addition economic restrictions imposed on China by the United States and a few West European countries.

In the face of these difficulties, the municipal party committee and the municipal government promptly adopted certain measures: They improved disposition of the key elements of production, implemented a plan for the adjustment of the industrial product mix, accelerated the reform of the foreign trade agency system, and instituted activities for "double increases and double economy" [increase production and practice economy, increase income and reduce expenses]. With the joint efforts by the entire citizenry, Shanghai's economy was still able to achieve a steady growth under these extremely difficult conditions. During the first half of the year, the major norms of the economic plan were to the greater part successfully "accomplished over half the goal in half the time," essentially realizing what had been set forth at the start of the year, namely maintaining a steady growth, and in this steady growth gaining the main demand of our economic work, namely a definite progress.

### I. Main Characteristics of Economic Progress During the First Semester

Main characteristic of Shanghai's economic development during the first half of the year was: Moving from a low to a high degree of development and also development at a steady pace.

**A. Industrial growth advanced from low to high.** Even though Shanghai faced considerable difficulties when the state began to implement its policy of macroeconomic retrenchments, and although room for maneuvering was extremely limited, it had been possible, after average daily output value per industrial month temporarily declined in January and February, to raise the daily output value per month again in March to 321 million yuan, exceeding 1988 when highest average daily output values had been 320 million yuan (in September and November). Since March, the monthly output value of industry has all along kept steady at over 9.9 billion yuan, and has exceeded month after month last year's (October) record monthly output value of 9.603 billion yuan. In June, it even exceeded the 10 billion yuan mark, establishing a new record for a month with the highest daily output.

**B. Market supplies went from stringent to relaxed.** According to computations at the start of the year, Shanghai showed a gap of about 2 billion yuan between available commodities and social purchasing power. Market supplies were stringent and alleviated at the

same time, and large pressure was exerted by the citizenry as they anticipated further inflation. Since February and March, there have been some small-scale panic purchases, but since April, in the wake of a stronger response to the various macroeconomic retrenchments of the state, the gap between total social demand and total social supply has gradually narrowed. The market has tended to greater stability, and there have been sufficient supplies of the various staple and nonstaple foodstuffs, as well as of manufactured goods for daily use and durable consumer goods. Shanghai's daily average retail sales of social commodities has stabilized at around 100 million yuan. Savings by the citizens have steadily increased, and the trend among the people to spend whatever cash they hold on panic purchases has made place to selective buying or saving money and delaying purchases; a more relaxed market atmosphere is now appearing.

**C. Foreign trade and exports moved from decline to increase.** Under the influence of a variety of restrictive elements, Shanghai's foreign trade and exports took a steep dive. Only \$2.25 billion were achieved in exports during the first semester, which was a 4.18 percent decline, compared with the corresponding period last year. If we would deduct the more than \$100 million of exports by the "three-type-capital" enterprises, the decline for the entire municipality would be of an even larger dimension. However, due to the joint efforts of high and low throughout the municipality, and also of industry and trade, exports through the port of Shanghai turned more favorable month after month. In June, Shanghai's foreign trade and exports reversed the decline, and achieved an excess of \$500 million, thereby setting a new record.

### II. Main Problems Faced in Economic Development

Although Shanghai's economic development is presently achieving further growth, there are still a variety of elements that restrict economic growth, and Shanghai is facing quite considerable problems in its economic growth, the major ones being:

**1. The problem of financial expenditure outpacing financial revenue.** Benefited by the steady increase of revenue from the commercial and industrial tax, local financial income has now ceased its declining tendency. However, due to the pricing effects, local financial expenditure, especially the various expenses for subsidies, have rapidly increased. Even if this year's financial revenue plan of 1.54 billion yuan will be punctually accomplished, the problem of balancing receipts and expenditures in Shanghai's local budget is becoming more and more critical. According to computations by experts, it will be impossible to balance revenue and expenditures for the entire municipality if Shanghai's financial revenue this year cannot reach 15.6 billion yuan, and if financial revenue will not reach 15.8 billion yuan, it will be impossible to ensure a revenue-expenditure balance at the municipal level.

2. The problem of growth of industrial production while logistic support is insufficient. Insufficient logistic support for Shanghai's growing industrial production is due mainly to the following two causes. One is the structural incongruity of its growth. Looking at the ownership structure, we see that the growth rate of industry owned by the whole people was only 1.6 percent during the semester, and among these industries, production by local industries owned by the whole people declined by 0.3 percent. These growth rates are far below those achieved by collective industries, which grew at the rate of 23.8 percent. Looking at the product mix, we see that the two mainstay industries, the textile and metallurgical industries, have shown negative growth. Because Shanghai's industry is very much intertwined, any decline of production in the textile, metallurgical, and similar basic and mainstay industries will aggravate the problems throughout the entire product mix of Shanghai's industries, and will even further highlight the difficulties caused by the shortage of raw materials. The second cause is the insufficient logistic support for enterprise growth. Under the pressure for cutting down investments in fixed assets, some of Shanghai's old industrial enterprises, decrepit and outdated as they are, will have to delay technological renovations, and some of its high-tech enterprises, which are nationally in leading positions, will have their continued investments cut off, and as a consequence be unable to bring their outstanding capabilities fully into play. The inadequate logistic support of enterprises manifests itself also in that there is up to now no assured source yet for the export loss subsidies for goods that will be marketed abroad during the second half of the year, while for goods marketed domestically the areas experiencing losses and the amount of losses will increase because of the steep rise in raw material prices, which the enterprises will not be able to absorb within a short time. This situation will adversely affect enthusiasm for production and for undertaking business operations.

3. The problem of controlling inflation while freeing commodity prices. Because of the repeated orders issued by the Central Committee and by Shanghai Municipality forbidding price hiking, and due to supervision and control over some commodity prices, the inflationary trend in retail prices has been initially restrained. Shanghai's retail price indices for the first half of 1989 have risen altogether 26.6 percent, compared to the corresponding period in 1988. In this figure, the new inflationary factor was 4 percentage points, because the government's concentrated action this year was mainly adversely affected by some perky and spontaneous inflationary elements. Even though commodity prices have risen steeply, the emotional response to the price increases by the masses was, therefore, not as strong as last year. The main problem now is that prices for means of production stay unyieldingly high. Comparing prices in May with those in December of last year, the inflationary factor of the new prices has reached 8.8 percentage points, evidently higher than the new inflationary factor for retail prices. This makes production at

the enterprises unprofitable and aggravates the loss situation. Voices are therefore raised high demanding price adjustments. If controls are not strengthened, commodity prices are bound to rise tremendously, on the other hand if commodity prices are not promptly freed, it will lead to production fluctuation, supplies will become insufficient, there will be shortages of commodities, and a thriving black market will form, which in the end will still stimulate inflation in commodity prices. Commodity price control is in a real dilemma.

Among the three problems that we have mentioned, the most critical one is the problem of controlling inflation while also freeing commodity prices, and the most fundamental problem is still the balancing of revenue and expenditure in public finance. Only with abundant financial and material strength can the enterprises and the citizenry be helped gain a greater tolerance for price adjustments, and can the inflation of commodity prices finally be effectively controlled.

### III. Outlook for Developments During the Second Half of 1989

Looking toward the second half of the year, the economic outlook for Shanghai is half favorable and half alarming, indeed no cause for optimism. The same main restrictive elements that affected production development and economic growth during the first half of the year, will continue to exist in the second half of the year: 1) Supply-demand gaps of varying severity will exist for coal, electric power, pig iron, steel products, nonferrous metals, fuel oil, timber, and other basic raw materials, with conspicuous problems also as to the variety, standards, and quality of the products. Prices will remain unyieldingly high, directly affecting all aspects, such as production, exports, state revenue, and commodity market prices. 2) Under the influence of the high cost of means of production and foreign exchange, there will be strong pressure in all quarters exercised by the natural increase of demand for capital funds; however, as a consequence of the state's policy of retrenchment, the capital supply by Shanghai Municipality by far cannot satisfy this increased demand, whether as regards the scope of credits or with available capital funds. 3) Due to the effect of state policies for monopolistic operations and controlled purchases, some goods, which originally had a good market, such as passenger cars and color TV sets, now have become difficult to sell, which adversely affects production turnover, aggravates the problem of capital fund shortages, and also adversely affects shifting of raw materials which are in serious short supply.

Besides that, as an aftermath of the turmoil, new difficulties and problems for production have been brought about for the second half of the year: first, the dilemma in price controls will become more critical. Because of the need to reassure popular sentiment and to bring stability to the general situation and to the market, work in connection with commodity prices is no more merely economic work, but has at the same time become a kind of important political work. In the face of the unyielding



high prices for means of production and for agricultural products, stabilizing commodity prices and stabilizing the markets has come to mean requiring all enterprises to exert greater efforts and having public finance make greater sacrifices. Second, as some countries have proclaimed economic restrictions against China, have frozen new development assistance projects, and stopped political and economic exchanges, bank consortia are demanding new and very harsh terms for their loans. In some projects where terms were somewhat amiss and in our favor, the foreign party would find fault, making it impossible to carry out the project according to plan. Projects that required new government loans or export credits had to be deferred. New loans from bank consortia and capital raised for projects with transferable credit will obviously become more costly. All these new circumstances will increase our difficulties to expand the use of foreign capital and to earn foreign exchange through exports.

Of course, we must also recognize some positive factors which have appeared on the scene. This is mainly the comparatively steady situation of the market. In implementation of the spirit of the 4th Plenary Session of the 13th CPC Central Committee, the relevant departments of the state will possibly carry out several remedial measures in the near future:

- 1) They will continue to straighten out and restructure the corporations, bringing all official and private profiteers to justice, asserting state operations as the main economic channels, and firmly insisting on fulfillment of contract commitments concerning planned distribution of materials.
- 2) They will adopt measures of monopolistic operations and price ceilings, strictly controlling the extent of price increases for means of production.
- 3) They will implement a slanted policy that will safeguard key points and safeguard the overall situation, based on the need for restructuring production and for improvements in the disposition of resources.
- 4) They will raise the proportion of financial revenue within the national income, unceasingly work to perfect the tax system, strengthen financial and tax-related work, and resolve the problem of unfair social distribution.
- 5) They will resolutely implement the policy, decided upon early this year, of curbing the scope of fixed asset investments, however, with a possible loosening of the restraints in some cases of projects of the basic industries.
- 6) In coordination with the slanted policy, and to ensure smooth progress in production during the second half of 1989, the state may loosen up its Shanghai currency issuance and credit policies.
- 7) They will strengthen control of commodities for which purchases are restricted, energetically restraining the purchasing power of social groups and reducing expenditure for all unnecessary administrative expenses.
- 8) They will revitalize the large and medium-sized state-run enterprises and control the growth rate of township enterprises.

#### IV. Suggestions of Possible Choices of Countermeasures

Economic work during the last half year of 1989 must afford an extremely important position to ensuring political stability as well as social peace and tranquility. These are fundamental prerequisites for the achievement of economic stability and growth. Based on these preconditions, we must also effect a corresponding adjustment in the alignment of economic objectives that have to be accomplished within the year. There have to be items that must be ensured and also items that have to be abandoned, but what definitely has to be guaranteed is the completion of the most important economic objectives.

1. *We must definitely guarantee fulfillment of the task of improving financial revenue.* Presently, all quarters are relying heavily on public finances. Subsidies from public finance are needed to stabilize commodity prices, to ensure that real income of most staff and workers will not decline, to support expansion of exports, to carry out restructuring, and stabilizing the situation throughout the entire country also requires that Shanghai ensures fulfillment of its financial obligations toward the state. It is of utmost importance for the accomplishment of the various tasks that should be accomplished during 1989 that the task of achieving the anticipated financial revenue be smoothly accomplished, and that efforts will be successful to overfulfill this task. Matters of financial and tax revenue must still be pursued in a realistic and practical spirit; we must, on the one hand, not "eat up next year's food," and thereby add to the financial burden of 1990, but we must also not "fight an ambush action." Through "double increase and double economy" activities and by energetic efforts to increase revenue, we must resolve the problem of 1989's gap between revenue and expenditure in the finances at the municipal level.

2. *We must definitely guarantee that 1989's index of retail prices for consumer goods be lower than the real figures for 1988.* Since May of 1989, the rise in Shanghai's consumer goods retail price index has been distinctly under control. Compared with December of 1988, the price level of April was 105.3, the level in May was 104.6, and in June 99.9. According to this trend, it is quite possible to achieve the objective of definitely ensuring that the consumer goods retail price index be lowered to below the actual figures of 1988. At present, we must first strictly enforce the relevant provisions of the State Council: Without exception, prices fixed by the state or under state guidance and administered by counties or higher authorities must not be changed, unless the change has been specially authorized by the State Council. Second, we must appropriately reduce the amount of planned procurements of stringently short products to be acquisitioned by the state. We must increase the quantities that may be freely sold by the enterprises themselves, and must encourage the enterprises to use the products of their factories, or of their trade, to exchange raw materials at low prices, and thus

balance out gaps in raw material supplies. Third, enterprises which incur losses due to the rise in raw material prices may adopt the method of having public finance guarantee the "two monetary obligations," in order to protect normal production.

3. *Broadening experiments with export enterprises assuming responsibility for their own profits and losses, stimulating enthusiasm among industrial and commercial enterprises for the expansion of exports.* In the process of reform and opening up, Shanghai has no choice but to accelerate the process of an internationalization of its economy. A wider use of international resources is beneficial for a resolution of the shortages of domestic resources. A wider use of internationally advanced technologies is beneficial for promoting the four modernizations throughout the country. We must, therefore, strive in 1989 to accomplish the \$5 billion export task. Enterprises are the subjects of economic activities. Apart from being guided by the government's production policy, the crucial point in the process of internationalizing the economy is to stimulate production enthusiasm among the enterprises. It is suggested that according to the experiences in experiments in the garment, handicraft, and light industries, to selectively expand the "inverse 2 to 8" proportion and to expand experiments with having industrial and trading enterprises bear responsibility for their own profits and losses. For this purpose, it is necessary to adjust the basic figure for Shanghai's obligation to turn over foreign exchange to the state. For now, doing this will temporarily reduce the amount of foreign exchange to be turned over to the state, but in the long run, because it will resolve subsidy loss, the portions of foreign exchange retained by the state, the local authorities, and the enterprises will gradually increase following increased exports. At the same time, it will be possible to maintain the continuity and stability of state policy, avoiding the shortcomings of once a year having to adjust the proportions, and of having various different proportions within the same trade. To proceed in this way will help create an environment of equal competition and will avoid that a preferential policy for the "guerillas" will be victorious over the "large army," leading to a dispersal of business operations. It will also be beneficial for having enterprises flexibly adjust their product mix and further expand exports, in accordance with the changes and comparative costs in the international market.

4. *Launching thorough "double increase and double economize" activities, requiring efficiency in management.* To achieve a 2 percent growth rate in local industries owned by the whole people, a 10 percent increase in foreign exchange earnings from exports, and to reach the objective of \$5 billion, it is necessary to launch thorough "double increase, double economize" activities. When launching "double increase, double economize" activities, it is necessary in macroeconomic respects to show determination to restructure industrial production, the product mix, and the organization of our enterprises, to achieve optimum coordination of the key elements of

production, and to bring the manifold capabilities and overall advantages of the city of Shanghai fully into play. In microeconomic respects, we must strengthen enterprise development and emphasize efficiency in management. The decline in the quality of enterprise management is an important reason for the unsatisfactory economic returns in Shanghai during recent years and for the downward trend in financial revenue. Revitalizing the state-run large- and medium-sized enterprises requires not only a favorable external environment, but more even excellent conditions within the enterprises, to have truly sound enterprise management as foundation. All enterprises must presently emphasize technological progress, economizing energy and reducing waste, proper business accounting, product quality, product marketing, labor discipline, safe production, and the training of personnel. Using the huge potential in every area that is available in Shanghai, and singling out one item or several items for special attention can result in considerable economic benefits for the enterprises. We must continue experiments with delegating authority and revitalizing the enterprises. Shanghai must promptly review the experiences of 18 enterprises which have experimented with decontrolled business operations, and must try to find new ways to revitalize the large- and medium-sized state-run enterprises. We must enhance harmonious cooperation and fully implement policies. We must dispel anxieties among the enterprises and resolve their difficulties, and create an environment of equal competition for all our enterprises.

#### V. Effective Resolution of Outstanding Problems in Income Distribution

Intensified education for arduous struggle, mental preparation for several years of stringent living, strict control of the excessive growth of consumption funds: these are the important tasks to be accomplished during the second half of 1989. However, considering the fact that commodity price inflation is still running very high, and that there still are conspicuous problems of unfair distributions, the important measures under these conditions to maintain social peace and stability are effective resolution of the conspicuous problems in income distributions and ensuring that the real income of most staff and workers will not decline. At present, we must, on the one hand, change our traditional wage concept and traditional statistical methods, which have been in use all along, and establish an "individual income" concept and a statistical indexing system that has as basis the total income of the individual, to correctly reflect the level of real income of the citizens. On the other hand, we must resolve as a key concern the problem of unfair distribution. At present, as long as economic relations have not yet been straightened out, and operational mechanisms not yet been perfected, there has to be a fundamental principle of distribution for manager incomes and also necessary measures of restraint, to prevent managers from snatching away, under various pretexts, some of the wealth that belongs to the state. As to income that does not appear in account books—a

custom widely prevailing in our society—any part of it that is reasonably justified should be made legal, should appear openly, and should be expressed in currency. The relevant departments of the municipality should pay an appropriate subsidy to staff and workers whose actual living standards have greatly declined due to inflation of prices. Last year, the Central Committee has clearly indicated in its Document No 123 that Shanghai may institute "a linkage" and "four subsidiary measures," which also include measures concerning wages. It is therefore possible now to increase the bonuses and food subsidies to staff and workers in government organs and in industrial units, the upward extent of such to be limited to where they can compensate for commodity price rises. As to the source of capital funds, industrial units that have income can themselves solve this problem, while units without income or those who truly have difficulties, may solve their problem from out of the public finance expenditure of local second-grade finance authorities, or they may establish special income adjustment funds to solve the problem, in order to truly ensure that the income of staff and workers in government organs and in industrial units will not decline too much. As to the many retired staff and workers, they should also be granted subsidies at the same time, in accordance with the above-mentioned spirit.

#### **Implications of Concessionary Policies for Guangdong**

900H0025A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese  
No 204, 16 Sep 89 pp 22-26

[Article by Lu Di (1687 5441): "How To 'Lift a Corner of the Net' for Guangdong"]

[Text]Guangdong Finally Gets "a Corner of the Net Lifted"

Ever since the political situation basically congealed in June, the status of China's policy of reform and opening up has been an issue of great concern. Nevertheless, it has been reported during this period that the central leadership has finally granted its approval of certain kinds of special treatment—exceptions referred to by the phrase "lifting a corner of the net"—which authorities in Guangdong Province have long been struggling to secure. This carries deep and long lasting significance, both for future economic development in the province (and in Hong Kong), and for the line and policies of the new leadership in Beijing.

Of most concern is the question: Does the fact that Guangdong Province received approval from the central leadership at this particular time signify that a new thrust toward opening up will be launched in China? Or is it simply a temporary measure adopted by the central leadership in order to increase foreign exchange earnings?

It appears, when considering the issue on the basis of recent signals emanating from within China, that both

scenarios are possible. With respect to the former, the most important supporting evidence is the fact that plans for Hainan's Yangpu Development District, which have been a constant source of controversy, have finally been approved. Furthermore, similar development models are being strongly promoted in other coastal areas (Tianjin, for example). On the other hand, authorities in Guangdong Province, at the demand of the central leadership, will soon carry out a vigorous rectification and cleansing of the ranks of its foreign trade companies and of companies operating in Hong Kong. This demonstrates the fact that the central leadership does not allow Guangdong authorities a completely free rein.

Precisely for this reason, then, if one is to grasp this reality, it is necessary to first understand the history and implications of the idea of "lifting a corner of the net." In addition, by observing the economic difficulties of Guangdong Province in 1989, and the tug-of-war between the province and the central leadership over such policies as "streamlining and rectification" and "lifting a corner of the net," it is possible to clearly discern the structural conflicts between Guangdong's local interests and the interests of the nation as a whole, or at least the degree of mutual exclusivity between the province's model of economic development and the central leadership's macroeconomic policy-making.

The idea of "lifting a corner of the net" was originated in 1988 by the now fallen former General Secretary of the Chinese Communist Party (CPC), Zhao Ziyang. Its original intent was to have the central leadership allow coastal provinces and municipalities to use the policy of "lifting a corner of the net" to escape the economic difficulties caused by the program of "streamlining the economic environment and rectifying economic order" which the central leadership is implementing. Because Guangdong has been at the cutting edge of the coastal area economic development strategy, it has been hardest hit by the policy of streamlining and rectification. This demand was, in fact, made for the benefit of Guangdong.

It is for this reason that authorities in Guangdong have repeatedly emphasized since early 1989 that they must be sure to seize any opportunity to have "a corner of the net lifted" in order to last out this difficult period. In late March, Guangdong's governor Ye Xuanping (0673 6693 1627) even demanded publicly in a speech to the National People's Congress (NPC) that the central leadership "lift a corner of the net." Of the six concrete demands that he made, he especially emphasized the demand that the central leadership implement "concessionary policies" for Guangdong in the area of monetary, credit, and tax policies.

It is clear that these demands by Ye Xuanping could easily draw criticism from the central leadership as well as other provinces. Nevertheless, they did provide an accurate reflection of the crisis Guangdong has faced in 1989. This crisis has brought economic difficulties to the province.



It is, precisely as the authorities in Guangdong have repeatedly stressed, due primarily to a shortage of funds. Many economic units in the province have run into trouble. In particular, foreign trade, the lifeline of the province's economy, has declined dramatically. This is because foreign trade enterprises everywhere lack the funds to purchase goods, and producer enterprises are unable to supply goods due to their lack of operating funds.

#### Guangdong Exports Fall Precipitously This Year, Difficulties in Guangdong Glaringly Revealed

The dramatic fall in exports is the most direct manifestation of the difficulties of the entire economy.

In 1988, Guangdong's exports continued to lead those of the rest of the country's provinces and municipalities by a wide margin, totalling 7.37 billion dollars. That was an increase of 55.4 percent over 1987. According to the planned target set by the province's authorities, 1989 exports were to have further increased by 26.5 percent over the 1988 level.

However, as it has turned out, exports in 1989 have fallen instead of rising, and at a shocking rate. Through mid-April, total exports from the province had fallen 12.5 percent lower than the same period a year earlier, and the decrease in the first quarter was actually 15 percent. Profits from exports fell even more seriously. It is reported that foreign exchange earnings are 40 percent, or 800 million dollars, lower than the same period in 1988. The same situation has arisen in every municipality and county in the province. The provincial capital of Guangzhou, for instance, has seen the value of its exports from January through early March drop 24 percent from the same period in 1988. In the Shenzhen Special Economic Zone (SEZ), total 1989 export value from January through April was 18.1 percent lower than the same period in 1988. Total volume was 51.9 percent lower than the same period in 1988.

This situation has been alleviated slightly since May by emergency measures taken by authorities in Guangdong

and by several hundred million yuan which the State Council appropriated to Guangdong's trading units, but the situation is still very serious. Totals for the first half of the year indicate that the total value of exports was 2.6 percent higher than the same period in 1988. Guangdong's exports remained even with 1988 levels. Both figures fell far short of the target. Furthermore, in viewing future prospects, continued stagnation and even another drop in trade is very possible, because the various factors that caused the serious situation in the first half of the year continue to exist. In particular, the shortage of funds may even grow worse.

It is for precisely this reason that the authorities in Guangdong have demanded that the central leadership afford Guangdong special treatment in the area of fiscal and tax policy. Apart from that, the authorities have repeatedly stressed that "emergency retrenchment" measures have already had serious consequences and that the central leadership should not clamp down too tightly on credit.

#### The Structural Conflict Between Guangdong's Economy and the Rest of the Country

However, the troubles encountered by the authorities in Guangdong have clearly failed to garner them the sympathy of the central leadership, or of other provinces. In reality, the retrenchment policies have not been aimed specifically at Guangdong. Although they began to be implemented in September 1988, new bank loans during the year in Guangdong totalled 19 billion renminbi (RMB). This was 12.35 percent of the national total, and put Guangdong in the top spot among all provinces and municipalities. Furthermore, during the first quarter of 1989, while the national credit squeeze was at its height and Guangdong's economy was in the worst period of its slump, the province still managed to obtain 400 million RMB in new bank loans. In contrast, the national total fell by 2.1 billion. The cumulative total of the province's new bank loans in 1989 from January through May reached 2.118 billion yuan, which represented 21.5 percent of the national total (see Table 1).

Table 1.  
Total Outstanding and New Bank Loans to Guangdong, 1988 and January-May 1989

	Through End of 1988		Through End of March 1989		Through End of May 1989	
	Guangdong	National Statistics	Guangdong	National Statistics	Guangdong	National Statistics
Balance at end of period	97.526	1,055.236	97.982	1,052.962	99.678	1,064.970
Increase over beginning of year	18.997	153.782	0.422	-2.172	2.118	9.845
Growth rate	24.19%	17.06%	0.431%	-0.206%	2.124%	0.924%
Sources: 1. China's JINGJI RIBAO, 25 Jan 89 p 2						Unit: Billion yuan
2. China's Latest Economic Statistics, various issues						

It can be seen by the figures above that the serious shortage of funds in Guangdong in 1989 is not primarily due to the policies of the central leadership, which have tightened its credit supply. The problem arises from

demand. The province's demand is extremely inflated. Analysis of this inflated demand can reveal the implications of a given policy, as well as structural problems in the economy.

With regard to short-term factors, the central leadership's squeeze on the money supply began in the fourth quarter of 1988, but the authorities in Guangdong put off a substantial portion of demand for required funds until 1989. This indicated clearly that they anticipated that the retrenchment would not last long, and that the central leadership would again relax the money supply, just as they had done in 1986 in the face of local pressure (including, perhaps, pressure from Zhao Ziyang). By taking these measures, Guangdong was able to preserve a high growth rate of industrial production during the last three months of 1988. The growth rate was more than 35 percent higher than the same period in 1987. In so doing, the authorities in Guangdong sowed the seeds for the expansion of demand for funds which has occurred in 1989. The huge demand for funds which was postponed must be met. For example, sugar and fruits must be purchased, grains must be brought in from other provinces, and enterprise inventories are in serious need of replenishing.

As for long-term factors, Guangdong's monetary situation in recent years has been in a state of credit shortage. In other words, the province's high rate of economic growth in recent years has not occurred as the result of any rise in productivity, but rather has depended upon greatly increased inputs. The province has absorbed large amounts of funds from the state and other provinces. This has caused the troubles in Guangdong to rapidly reach a crisis even though the central leadership's retrenchment policies were not meant to be tougher on Guangdong than any other province. This is because, in the midst of the retrenchment, other provinces are also

experiencing shortages of funds, which has prompted the withdrawal of funds which had been invested in Guangdong. For example, Guangzhou has had to return two billion yuan since 1988 which had been borrowed from other provinces. The total amount of investment fund for the negotiated contractual projects with inland provinces that Shenzhen was able to secure in the fourth quarter of 1988 dropped, respectively, by one-fold and eight-fold or more, and the indications are that the trend will continue.

Related to this situation is the fact that the fundamental factor which has originated this inflated demand for funds, and necessitated the absorption of funds from other provinces, is the continually expanding scale of infrastructural development in recent years. Particularly since 1988, extensive construction of all sorts of export-oriented processing zones has been pushed forward blindly. According to Guangdong's Vice Governor Yu Fei [0060 7378], there were 11,000 fixed asset construction projects in progress throughout the province as of the end of 1988. Even if no new projects were begun in the future, it would take Guangdong, with its fiscal strength, three or four years to complete them all. The enormity of the funds needed for these projects can be easily imagined. What is more, in spite of repeated exhortations by the central leadership for a retrenchment, the scale of infrastructure development projects has continued to expand in Guangdong in 1989. From January to May, the total investments in fixed assets actually increased by 21.4 percent over the same period in 1988. In contrast, the nationwide total shrunk by 7.1 percent (see Table II), and the shrinkage target set by the State Council for 1989 is 28 percent.

**Table II.**  
**Guangdong's Executed Fixed Asset Investments, 1988 and January-May 1989**

	January-December 1988		January-March 1989		January-May 1989	
	Guangdong	National Statistics	Guangdong	National Statistics	Guangdong	National Statistics
Executed fixed asset investment	19.469	249.783	2.667	18.405	5.179	44.158
Growth from previous year	27.1%	18.8%	38.6%	-3.3%	21.4%	-7.1%
Of above: Local projects	15.903	145.680	2.253	10.152	4.152	24.032
Growth from previous year	34.9%	25.3%	42.2%	3.7%	18.7%	-4.9%
Sources: Same as Table I.						Unit: billion Yuan

The credit and investment figures listed above show very clearly that the key issue regarding "lifting a corner of the net" is not merely the fact that Guangdong's economy has run into trouble, nor is it simply a question of whether the central leadership should give Guangdong favorable treatment. The most important issue is whether the central leadership should stick to its policies of retrenching and adjusting. If Guangdong were accorded special treatment, the degree of its economic influence, plus the fact that other provinces would be tempted to follow in the footsteps of their successful peer, could easily result in the scrapping of the policy of "steamlining and rectification."

#### **Dramatic Political and Economic Changes Prompt Beijing To Change Course**

This was only the situation which prevailed until the dramatic political changes of May and June. Only after Zhao Ziyang fell from power did any change occur. The central leadership finally agreed to "lift a corner of the net" for Guangdong. However ironic that may seem, it was actually quite understandable.

Beijing's consent to the demands of Guangdong was no doubt related to the special political and economic conditions which arose after the 4 June incident. For one thing, with significant economic sanctions by foreign

governments and investors, plus the bleak showing everywhere by tourism, China now has to rely primarily on exports to earn foreign exchange. This is precisely what Beijing authorities have stressed repeatedly in recent days, and Guangdong, as the nation's largest exporting province, must now greatly strengthen its performance in this area. For another thing, in order to project the image that "reform and opening up" are continuing forward, they must be even more open than before, and the rulers in Beijing are willing to bolster Guangdong at all cost. This implies the same thing as does the approval of plans for Hainan's Yangpu development district: that a new round of opening up toward the outside world is in the offing.

The creation of an image of reforms and opening up is, after all, prompted by political considerations, and prospects are thus difficult to forecast. However, expanding exports to earn foreign exchange is a purely economic issue, so its political implications are quite clear. The reason the central leadership has been demanding since July 1989 that Guangdong's authorities vigorously rectify and cleanse the ranks of its trade companies and units operating in Hong Kong is that, even though rectification of the companies will certainly constitute somewhat of a blow to Guangdong's export volume, this is the only way to improve the ever decreasing benefits accruing to the state from exports. This signifies that the central leadership's promise to "lift a corner of the net" has not come without conditions. The central leadership is demanding, in return for its concession, that Guangdong make a contribution to the export earnings of the entire nation. It is demanding that the province increase the benefit accrued to the state through exports.

Unconfirmed reports indicate that, at the demand of the central leadership, one-half of the trade companies in Guangdong are going to be "retrenched" right out of business. In addition, the head of the province's "Work Conference on Foreign Economic Relations and Trade" stated in public that at least 600 companies would be eliminated. Furthermore, Vice Governor Yu Fei stressed in the "Provincial Work Conference on Foreign Economic Relations and Trade" that the province's 1540 enterprises with the authority to engage in importing and exporting would be earnestly inspected one by one, and less desirable ones would be eliminated from their ranks, because "we definitely cannot allow certain types of behavior to get out of hand in Guangdong, such as bidding up prices in an effort to buy up certain goods, or price cutting by sellers." It is precisely because the number of this type of trade enterprise is especially high that the average costs connected with foreign exchange earnings in Guangdong, under these viciously competitive conditions, has consistently remained the highest of all provinces and municipalities. During the first half of 1989, with the added impact of ever worsening inflation, after-tax export costs for Guangdong's specialized trading companies rose by 20.5 percent over the same period in 1988. Costs associated with net foreign exchange earnings rose by 22 percent, and losses increased by 42 percent.

With regard to the Guangdong authorities' cleansing of the ranks of companies operating in Hong Kong, it is planned that over 100 companies will soon be eliminated. This is no doubt related to the low benefit that exports are generating for the state, because these companies provide Guangdong an important channel for exports. Even more important, many companies operating in Hong Kong use various tactics to retain in Hong Kong some of the foreign exchange earned by Guangdong through its exports, and in some cases the money ends up lining private pockets. To a large extent, this is the main reason why the conversion rate for foreign exchange earned by the province through exports was only around 60 percent, and the net conversion rate dropped by another 4.9 percent in the first half of 1989. The result is that benefits to the state from exports have fallen even lower.

By this it is apparent that, at least for the short-term, the top priority of the rulers in Beijing is to expand exports and foreign exchange earnings. Thus, on the one hand, the central leadership has consented to give Guangdong special treatment in order to increase export volume. On the other hand, the central leadership has not simply given Guangdong special treatment, but also has demanded that the province increase benefits that accrue to the state through exports.

#### **Two Difficult Issues Regarding Future Prospects for the Policy of "Lifting a Corner of the Net"**

The decision by the central leadership to "lift a corner of the net" for Guangdong always has the potential to have an adverse impact upon the economy of the entire nation. The structural conflicts between Guangdong's economy and that of the nation have not, after all, fundamentally changed as a result of the dramatic political changes in May and June of 1989.

This type of conflict can be seen in the following two circumstances:

The first circumstance is as follows. Apart from the shortage of funds, which has been the most decisive factor, there are many other reasons for the precipitous drop in Guangdong's exports in 1989, and most of them are related to the central leadership's policy of streamlining and rectification.

For one example, the paring away of Guangdong's export privileges in 1989 are in fact one of the central leadership's measures to rectify economic order. In the area of export regulation, about 160 export products are now subject throughout the nation to regulation through export permits, which is slightly more than in 1988, but Guangdong has lost the authority to export half of the products which it had been selling abroad in this category. In February 1989 alone, China's Ministry of Foreign Economic Relations and Trade (MOFERT) ordered Guangdong to stop issuing export permits for 26 products. The problem is that many of the products whose export has been prohibited are large ticket export items, especially in the case of pig iron and ferrosilicon. Also, and equally important, Guangdong has always been allowed to export any products manufactured in excess



of the planned quota, but this privilege has been taken away by the state in 1989. Of course, the adoption of these rectification measures is due precisely to the fact that Guangdong's exports have always relied upon concessionary policies and have even been detrimental to the national interest. The "pig iron incident" of late 1988 created a sensation for a time, and serves to illustrate the situation. When MOFERT revoked Guangdong's authority to issue export permits for pig iron, it cited the fact that in the first seven months of 1988 Guangdong had approved the export of 1.13 million tons of pig iron. This was an egregious breach of its authority to issue permits for the export of 45,000 tons of above-quota pig iron. This not only fuelled a huge price jump in the domestic market, but led to an insufficient supply of pig iron for the domestic steel industry during this year and next.

#### Low Returns, Large-Scale Organizations, Rapid Development, Insufficient Supply

For another example, Guangdong's sources of export goods have been insufficient in 1989. Supplies from enterprises within the province, as well as those from buying trips to other provinces, have all dropped sharply. On the one hand, this is due to the fact that the central leadership intends to suppress the rate of industrial growth through its policies of retrenching and adjusting, which have reduced the supply of materials to Guangdong. In particular, the insufficient supply of coal has caused the province's power shortage this year to reach 30 percent or more. Furthermore, the growth of industrial production in the province in 1989 has remained high, which has exacerbated the problem of insufficient power supply. Elsewhere, in the process of streamlining and rectification, the central leadership has imposed price ceilings and a state monopoly on certain scarce materials, and it has also severely restricted Guangdong's ability to purchase materials in other provinces outside the state plan. This type of purchasing, however, has been the key factor supporting the province's high rate of economic growth in recent years.

It is apparent from the analysis above that even if it is only to prompt a fairly large-scale expansion of Guangdong's exports (much less award them special status), the central

leadership must drastically blunt its streamlining and rectification measures. In order to relieve Guangdong's current economic predicament, a comprehensive set of concessionary measures is needed.

The second circumstance is described below. Even if the concessionary measures are limited to an easing of credit restrictions, the adverse impact upon the national economy would be quite serious. In particular, it would lower benefits to the state from the national economy. Prior to June, a major reason that Guangdong was never able to persuade the central leadership to "lift a corner of the net" was because the benefits accruing to the state via the province's economy were always so low.

Benefits accruing to the state through foreign trade have already been mentioned. As for benefits accruing to the state through industrial production, official statistics clearly reveal that they have shrunk further and further, falling far below the state plan. In 1988, the costs of comparable products rose by 19.7 percent in Guangdong, far higher than the national average of 12.3 percent. From January through May of 1989, the same figure rose by 26.3 percent in Guangdong over the same period in 1988, also far higher than the national average of 18 percent (see Table III). But the problem is that, under the policy of retrenchment, the primary factor affecting the benefits that accrue to the state from industrial production is the supply of funds. When one considers the high proportion of new loans in the country which are now being absorbed by Guangdong, it can be surmised that costs of the province's industrial products have risen greatly. To a certain extent, this will cause costs throughout the nation to rise along with those of Guangdong. What is more, not only has Guangdong absorbed large amounts of domestic funds, it has also taken on large quantities of foreign debt. It is reported that the province borrowed a total of \$600 million from abroad between January and April 1989, \$580 million of which were commercial loans. This indicates just how low the benefits are that have accrued to the state, and it has also worsened the already extremely heavy burden of foreign debt. According to statistics, the balance of the province's foreign debt as of late November 1988 was \$1.6446 billion, and the peak period for repayment of foreign debt has arrived.

Table III.  
Benefits Accruing to the State From Industrial Production in Guangdong, 1988 and January-May 1989

	January-December 1988		January-March 1989		January-May 1989	
	Guangdong	National Statistics	Guangdong	National Statistics	Guangdong	National Statistics
Rate of decrease of costs of comparable industrial products (%)	-19.	-12.30	-25.3	-15.8	-26.3	-18.0
Tax rate on profit from industrial sales (%)	14.82	19.51	13.41	17.85	14.20	17.53

Sources: Same as Tables I and II

Note: The "-" symbol in the row entitled "Rate of decrease of costs of comparable industrial products" indicates that costs have increased, not decreased.

### Future Impact Upon the Nation

The two circumstances described above clearly show that if the central leadership wants to relieve Guangdong's current economic predicament, any measures it takes will unavoidably be a blow to its policy of streamlining and rectification, and may even have a serious negative impact upon the national economy. Furthermore, if the "lifting of a corner of the net" which the province has now secured for itself serves to set off a new round of opening up throughout the country, then this impact will be even greater.

### Fujian Conference Examines Enterprise Screening Process

OW1512020189 Fuzhou Fujian Provincial Service  
in Mandarin 1100 GMT 4 Dec 89

[Text] A provincial conference to discuss matters relevant to screening companies began in Fuzhou today.

Speaking at the meeting, Vice Governor Shi Xingmou urged all regions and departments to regard screening companies as an important project which must be accomplished earnestly.

He said: Fujian has achieved initial results in screening companies since October 1988. Of the more than 7,600 companies designated to be screened, the province had closed or merged 876 them and downgraded or renamed 395 others by the third quarter this year. Moreover, of the 1,800 or so party and government cadres holding concurrent posts in various companies, 94.2 percent of them—or 1,773—had resigned from one post. During the screening process, 302 cases of breaking laws or regulations were discovered. So far, 239 cases have been handled, a total of 5.69 million yuan in fines have been collected, and 27 major cases have been referred to judicial departments for investigation.

Nevertheless, Shi Xingmou pointed out, the pace of screening companies is uneven in various parts of the province. Unaware of the importance and urgency of the project, some localities and departments are not resolute enough in this endeavor. They also worry that the closure or merger of companies will affect the economic interests of various regions and departments. Consequently, the problem of too many poorly managed companies still has not been resolved.

The vice governor pointed out: Companies to be closed or merged in the near future will be those which are nonessential and redundant, which do not have the operating resources, which have seriously violated the law, which are perennially mismanaged, and which have become insolvent because of serious losses; companies operated by party and government organs; and nonessential companies in the circulatory sphere, such as those engaged in wholesale business, foreign trade, commodity supply, and banking services.

Shi Xingmou urged all localities and departments to continue to screen companies with all-out efforts and

powerful measures. He said: Efforts must be made to handle those cases which have a great social impact and which involve crimes committed by county-level or higher ranking cadres, as well as cases of speculation in major production materials and popular consumer goods in short supply by taking advantage of the loopholes in the two-tier pricing system, such as selling at negotiated prices commodities that should be sold at state-set prices, or selling commodities mandated by state quotas as above-quota commodities. After companies have been closed or merged, all responsible departments must establish liquidation organs to liquidate their debts and assets. Efforts must be made to guard against anyone running away with the companies' capital, dividing their assets, or squandering the capital. After being merged, companies must continue to fulfill the contracts that have been signed so as to maintain economic order and protect their international reputation. Ideological and political work must be carried out among those personnel cut due to company closure or merger. Overall arrangements for their placement should be made.

Meanwhile, it is also reported that the Fujian provincial people's government has already set up a leading group in charge of screening companies. The group is headed by Wang Zhaoguo, and the deputy heads are Shi Xingmou, Zhang Hua, and Huang Ruilin.

## FINANCE, BANKING

### Balance Required in Commercial Credit Fund Management Methods

90OH0209A Beijing JINRONG SHIBAO in Chinese  
28 Nov 89 p 3

[Article by Zhu Zhuanghong (2612 8369 5725): "Correctly Select the Management Method of Industrial and Commercial Credit Fund"]

[Text] In the course of implementing the retrenchment policy, readjusting the economic structure, and implementing the credit slant policy, some people think that the centralized management of industrial and commercial credit funds has more advantages than disadvantages; others think that the pros outweigh the cons in the decentralized management. As opinions are widely divided, no agreement can be reached. In my opinion, both views are incomplete. No matter which one—centralized or decentralized—we choose, we will end up with an oversimplified and incorrect method.

### I. Analysis of Pros and Cons of Centralized and Decentralized Management

Centralized management (also called vertical management) refers to the management style under which credit funds are supplied in a unified manner by a grassroots bank or branch to production and management units that belong to one production industry or one sales category. Those who think that centralized management has more advantages than disadvantages emphasized

only the fact that centralized management is conducive to the implementation of industrial policy, the coordination of banks and enterprises, the regulation of credit funds, and the improvement of the professional quality of cadres in charge of credit. But they ignored the following four major weaknesses of centralized management: 1) Centralized management is inconvenient for linking deposits with loans. Since credit is under vertical management and account settlement is under nearby management, many enterprises within the vertical management system have their savings account with one bank or branch and their loan account with another. This makes it impossible for credit officers to understand the capital transactions of those enterprises who have borrowed from their banks or branches but do not settle accounts with them. This causes credit officers to lose perspective, accountants to lose orientation in book-keeping, and enterprise's financial personnel to request more than they really need when applying for loans, thus reducing the use efficiency of credit funds. 2) Centralized management makes it hard for credit officers to gain a deep understanding of transregional enterprises and to exercise timely supervision of those enterprises that have used loans for unauthorized purposes. Under this type of management, investigations carried out before, during, and after a loan is granted still remain in the stage of extensive management. If something goes wrong, loans will be endangered and even incur losses. 3) Centralized management is liable to cause bank's internal waste. Because enterprise's credit, account settlement, and factory address are in different locations, in order to get more business, banks establish branches everywhere indiscriminately, thus resulting in constant savings wars of all kinds. 4) Centralized management increases the channels of loan application and approval. To apply for a loan, an enterprise usually needs to go to the bank only once. But under the condition of centralized management and if funds happened to be short at this time, to apply for a loan, enterprises often have to go to a grassroots bank or branch to explain why they need the money and then go to another bank at a higher level to explain different situations. Sometimes, they have to go through several channels. This not only wastes enterprise's manpower and material resources, but also increases the difficulty of credit work. It is, therefore, clear that the advantages do not necessarily outweigh the disadvantages in the centralized management of industrial and commercial credit funds. Adopting this method alone can only make it difficult for banks to use the method of credit to organize savings in a planned manner, release loans, settle accounts, and play their role in regulating, distributing, reflecting, and supervising the capital turnover of industrial and commercial enterprises.

The so-called decentralized management (also called horizontal management) refers to the management style under which grassroots banks and branches establish lending relationships with enterprises and establishments within their administrative divisions. Those who

think that the pros outweigh the cons in the decentralized management emphasized the fact that the decentralized management makes it easy for credit officers to have a deeper understanding of enterprise's situation, link deposits with loans, record loans in a timely manner, and develop their subjective activity. But they ignored the four major shortcomings of decentralized management: 1) Decentralized management is not conducive to classified statistics and comprehensive analysis. 2) Decentralized management makes it harder for banks to carry out the policy of "selecting and supporting those which are better managed." Grassroots banks and branches use the unified rules and regulations of higher bank authorities on the "selective support" as their basis for evaluating enterprises within their jurisdiction to decide which should be given the priority in the supply of credit funds. However, because enterprises within their jurisdiction are different in structure, it is very difficult for banks to be consistent in the course of enforcement. As a result, on a macroeconomic scale, they have failed to support what they should have supported and to tighten the control which they should have tightened. 3) Decentralized management makes it hard for grassroots banks and branches to contact enterprises, thus weakening banks' service and supervision of enterprises. 4) Decentralized management is not conducive to implementing the retrenchment credit policy. Under the decentralized management, enterprises within the same industry and system are spread in different grassroots banks and branches. Due to the insufficient understanding of overall situation, credit officers are likely to examine and approve loans, based only on enterprise's application report, thus increasing the release of much unnecessary funds. It is thus clear that decentralized management has more disadvantages than advantages. Adopting this method alone can also make it hard for banks to play their role in expanding social accumulation, speeding up enterprise's capital turnover, regulating currency circulation, and gathering idle funds.

## II. Adopting the Combined Method of Centralized and Decentralized Management

In my opinion, the correct management method of industrial and commercial credit funds should be one that organically combines the centralized method, which is convenient for management, and the decentralized method, which is conducive to operation, that suits measures to local conditions, and that develops strong points and avoids shortcomings. The practice of the Beijing City Industrial and Commercial Bank proves that the management of industrial credit funds should be divided on the basis of geographical positions: Urban areas and inner suburbs should adopt vertical (centralized) management and outer suburban counties should adopt horizontal (decentralized) management. The management of commercial credit funds should be divided on the basis of the commodity reserve task: First- and second-level commercial wholesale centers should adopt



vertical (centralized) management and third-level wholesale centers and retailers should adopt horizontal (decentralized) management. Exercising the centralized management of commercial credit funds in first- and second-level wholesale centers and establishing nearby affiliation enable the credit officers of grassroots banks and branches to contact enterprises in a timely manner and adopt a deep understanding of their situation, thus overcoming the weakness of separating deposits from loans and preserving the advantages of centralized management. The decentralized management of industrial credit funds should be exercised in outer suburban counties and the decentralized management of commercial credit funds should be exercised in third-level wholesale centers and retailers. This can overcome the disadvantage of simple decentralized management which is not conducive to classified statistics and comprehensive analysis.

In sum, centralized and decentralized management methods each have their own advantages and disadvantages. The combination of the two should not be simple addition. All localities should combine them organically in accordance with their own conditions. Otherwise, they will only turn advantages into disadvantages and further weaken weaknesses in the management method of industrial and commercial credit funds. At present, the growth of banks' business range fails to catch up with the growth of their personnel whereas the growth of their personnel fails to catch up with the growth of their business volume. Under this circumstance, problems of one kind or another will arise in combining centralized and decentralized management. Along with computers' further development and application in the banks' comprehensive credit departments, final solutions for these temporary problems are just around the corner.

#### **Strengthening Central Government Financial Resources**

900H01804 Beijing JINGJI RIBAO in Chinese  
17 Nov 89 p 3

[Article by Chen Yao (7115 5069): "Choosing a Policy That Will Strengthen Central Government's Financial Resources"]

[Text] In the last 10 years, China has experienced swift social and economic development. Although the people's standard of living has improved markedly, the state finances have fallen into dire straits: government finances remain in the red year after year; a steep drop by slightly over 10 percentage points of the proportion of financial income in the national income; the day by day increasingly inflexible expenditures out of central government's finances, the day by day growing pressure of debt and of the burden of financial subsidies. As the primary means of macroeconomic regulation and control, the state's finances are directly affecting the long-term stable development of the entire national economy and influence all progress in reform and opening up.

However, on the question of how to strengthen the financial resources of the central government, theorists have come up with two diametrically opposed views and proposals.

One view believes that, "delegating authority and yielding profits," the main line of the reform, may have mobilized the enthusiasm of enterprises, local authorities, and departments, but, at the same time, sharply reduced the state's financial revenue and led to the almost daily deteriorating condition of public finances. The way out for public finance would therefore lie in the abandonment of support for the existence and development of enterprises and local authorities by means of "delegating authority and yielding profits," and to replace the expansionist economic policy by a policy of retrenchment. Main measures to that effect should be the adjustment of the basic figures and progressively increased ratios in the two contractual undertakings (contracting for enterprise management and contracting by local financial authorities), changing pre-tax loan repayments to post-tax loan repayments, straightening out and correcting the various kinds of preferential policies, strictly budgeting and regulating the collection and administration of funds and of all kinds of tax revenue, thereby raising the two proportions (the proportion of financial revenue in the national income and the proportion of central finance in overall state finance).

The opposite view believes that the true cause for the financial difficulties is not to be found in the fact that tax reduction and profit yielding might have led to a dissipation of the state's financial resources, but must rather be attributed to the tardy progress made in smashing the old pattern of centralizing receipts and expenditures. The central government still monopolizes an excessive number of key construction projects, which results in an excessive volume of central government expenditure and pressure from domestic and foreign debts. The way out would be to continue to promote the reforms—mutually complementary—of both the financial structure and the enterprise structure. Main measures would be: Cutting off the large burden of the state's key constructions. A large part of the projects could rely for their completion on the enterprises, on local authorities, or on other concerted action. Reform of the investment structure by making the enterprises main bodies of investments; adjusting policy so as to allow the enterprises to maintain in financial matters sufficient economic power for self-development and for expanded reproduction. If central finance will in this way cut off half of the funds used in economic development, it would be able to go on with much-lightened baggage.

The above-mentioned two views on the question of strengthening central finance can, theoretically, achieve the objective, "reaching the same good goal by different routes." However, in view of the actual circumstances, each train of thought has certain weaknesses. For instance, by purely relying on correcting the method of "delegating authority and yielding profits" to raise the

financial strength of the central authorities, to balance expectations with factual power, may on the one hand possibly lead to overcentralization and the unavoidable odd circle of "relaxation—chaotic conditions—renewed tightening—deathly rigidity." On the other hand, the rigidity that presently exists in the benefits enjoyed by local authorities and enterprises may also engender a "dampening effect" on this method. And again, if we were to dissolve the factual power in the expectation of achieving the objective of strengthening the central government's financial strength, we would not only bring about a weakening in the capability for macroeconomic regulation and control, because of the presently crippled financial strength of the central government, but also under the conditions of an immaturely developed market, impede many construction projects which are important for economic development, and possibly cause an "absence" of any main investment body.

To effect a transition from the highly centralized transitional system to the new system of planned commodity economy, public finance would not at all have to forfeit its economic construction function, and state investment would still maintain its predominant position in the setup of many levels of policy decisions. We must also realize that the regional differences and developmental imbalances in China's economy determine that regional regulation and control is an indispensable and important stage for the effective regional regulation and control within the system of macroeconomic regulation and control. When we choose a policy for strengthening central government financial resources, we must, therefore, on the one hand pay attention to strengthening the central government's capability for macroeconomic regulation and control, and on the other hand, protecting the enthusiasm and rational interests of the enterprises, the local authorities, and any other quarters. The most expedient method is to gradually rectify the imbalance or incongruous condition between factual power and financial power of the central government through an appropriate amount of the two-way effort:

First, while ensuring the stable development of enterprise and regional economies, we must adopt appropriate measures to raise the degree of centralization of state finances. Presently, in China, the proportion of financial revenue within the entire national income and the proportion of central government finance within the entire state finance, whether compared with China's historical situation or with the international situation, are both at too low a level and must again be raised to a rational level (which is not to indicate that they must return to the levels of the past). For this purpose, appropriate adjustments of the basic figures and rates of progressive increases in the contractual undertakings (contractual assumption of obligations) of regional authorities and enterprises are a necessity. Certain inappropriate tax reductions, yielding up of profit shares, and other preferential policies are also in need of straightening out and corrections, otherwise it will be impossible to raise the two proportions. However, attention must be

paid to maintain the stability and continuity of policy. We must not generate wild fluctuations in the developments of enterprises and local authorities as the result of the adjustments. We must place our basic measures solidly on improved economic efficiency of enterprises; that is the fundamental way out and toward the expansion of sources of financial revenue. During the last 10 years, China's economic efficiency, whether in vertical or horizontal respects, has not gone up, but only down. The potential for raising the efficiency is therefore very large. Merely by the one expedient of returning cost interests and tax rates back to 1978 levels could increase the state's financial revenue within a year by over 30 billion yuan.

Second, we must clearly define the borders of regional factual power, we must separate out from central government concern all tasks which essentially should be undertaken by local authorities and for which the local authorities are capable of assuming responsibility. Since the system of "eating from different kitchens" was introduced in public finance in 1980, financial resources of local authorities have markedly increased. The proportion of local financial revenue within the state finance has risen from 30 percent in the 1950's, to 40 percent in the 1960's, and again to the present figure of around 50 percent. However, the factual power of local finance has not at all expanded correspondingly, but is blurred and indistinct. Irregularities in the conduct of local governments that have occurred in recent years and the trend of local investments to deviate from the objectives of the state's industrial policies, are all related to this circumstance. Local finance must, therefore, share a corresponding responsibility with central government finance, and the central government must transfer a part of the construction projects to the local authorities. This would not only resolve the problem of a spending in excess of revenue on the part of central government finance, but would also strengthen the powers of central government finance for macroeconomic regulation and control. Items of expenditure that the central government can do without are: city building and modernizing old cities, which are undertakings that belong completely to local expenditure, repair of local cultural relics and temples, subsidies for grain or oil bought in excess of procurement quotas, subsidies for working expenses in border areas, and so forth and so on. Construction projects of predominantly local character and supplemental work for especially large engineering projects should be transferred to local authorities, following the principle of "let the party who benefits invest its funds." Moreover, to prevent that the investment trend of the local enterprises contravene the intentions of the central government, policies that govern the state-owned enterprises should be enacted to synchronize with regional policies of such enterprises and thus be used as guidance and intervention by the central government.

In short, adopting the rational parts contained in both of the above-stated views on strengthening the central government's financial resources, and at the same time

working hard in both directions, would be more effective—also easier to execute—than partial viewpoint or overemphasizing only one viewpoint in positively stimulating China's structural reform and economic development.

## INDUSTRY

### Trends in 1990 Car Parts Market

400600204 Beijing JINGJI CANKAO  
in Chinese 22 Nov 89 p 2

[Summary] According to information from the 1990 National Automobile Parts Order-Placing Meeting, the replacement rate for automobiles will be lower in 1990, while the demand for car parts will increase slightly. Car parts sales in the first nine months of 1989 were better than in the same period of 1988, although the market fell slightly in October. From January through October, state-run enterprises' car parts sales were over 3 billion yuan, more than a 20-percent increase over 1988. This is because the state increased its control over the automobile market and, although the market is soft and the replacement rate is low, the demand for parts has increased. It was pointed out at the meeting that name-brand auto parts sold well, while the demand for products from small or township enterprises with low name recognition or poor reputations contracted.

In 1990 over 60 percent of China's 5 million or more vehicles are expected to maintain normal operations. The demand for parts to maintain public buses alone will exceed 100 million yuan, while demand for compact car parts will exceed 300 million yuan. The parts market for medium-size cars should stabilize. The 1 million or so vehicles imported since 1980 are aging and are now entering a service period, and work to produce replacement parts for them domestically needs to be stepped up. Because overall demand for parts will increase, the nation's car parts market will not shrink like those of other processing industries. In addition, there is a current shortage of agricultural machinery parts, diesel vehicle parts, and agricultural transport vehicle parts, and thus there is a great potential to develop this market as well.

## SMALL-SCALE ENTERPRISES

### Township Enterprises Develop in Tibet

900H0181A Beijing JINGJI RIBAO in Chinese  
17 Nov 89 p 2

[Article by Wang Jingshan (3769 2529 1472): "A Visit With Peng Shisheng (1756 0099 4141), Director of the Tibet Autonomous Region Township Enterprise Bureau and a Developer of 'The Roof of the World'"]

[Text] Does Tibet, this mysterious "roof of the world," have both township enterprises and also export products that can break into overseas markets?

Quite a few of the people who visited the Second All-China Township Enterprise Export Merchandise Exhibition were certainly amazed when they saw the Tibetan Plateau Township Enterprise Exhibit. Moreover, many people, including certain comrades who were quite familiar with the situation of township enterprises, were surprised that the Tibetan Exhibition Hall attracted so many visitors. Many people stood for long times in front of the strikingly distinctive Tibetan rugs that are diversely patterned unique handicrafts. Even Premier Li Peng went to visit and expressed interest and admiration for Tibet's township enterprise products. People gathered round Peng Shisheng, director of the Tibet Autonomous Region Township Enterprise Bureau, and closely inquired about all aspects of the enterprises run by peasants and herdsmen on "the roof of the world."

The 53-year-old Peng Shisheng can be said to have an indissoluble bond with Tibet's township enterprises. He responded to the central government's call and joined the ranks of cadres who went to help Tibet, while working in agriculture in Yunnan Province in 1979. Although he originally thought, as did other comrades, that he would return to Kunming, where it was like spring all year round, after three or four years in Tibet, in line with the spirit of the higher authorities' call, he became immediately addicted to Tibet instead. Tibet's enchanting scenery and broad prospects for economic growth, as well as the aspirations of his Tibetan compatriots to get rich as quickly as possible, deeply fascinated and moved him. Not only had Tibet given him a burst of inexhaustible energy throughout his body, but none of the Tibetan cadres and compatriots who he had worked closely with from morning to night could bear to see him go either. Thus, not only has he worked in Tibet for a decade, but he has also resolved to stay on and continue to work there. Moreover, it was precisely during this decade that Tibet's township enterprises experienced such spectacular growth.

Peng Shisheng is very familiar with and has deep feelings for Tibet's township enterprises. He spoke about them as follows: The considerable advances that township enterprises are now making in developed coastal zones is basically consistent with the overall pattern of economic growth in Eastern, Central, and Western China. Although the economy of Tibet, which is an important member of the great family of nationalities, is still undeveloped, it will be treated with increased respect by the rest of the world as soon as it begins to develop, because it has such great potential. Since Tibet's backwardness is a case of poverty in the midst of abundance, her township enterprises are an indispensable link in her development.

Peng Shisheng invited me to taste buttered tea, which is peculiar to Tibet, while continuing his remarks as follows: Developing township enterprises will be an effective way to help Tibet's 2.12 million people of various nationalities (including 2 million Tibetans) who live in an area of 1.2 million square kilometers, to get rich. Tibet's township enterprises have increased at an



average rate of 20-30 percent a year since 1980 with the encouragement of the central government's exceptionally favorable policies and the help of all nationalities throughout China. Although the output value of township enterprises and the diversified economy throughout Tibet was only 47 million yuan in 1979, it had risen to 303 million yuan by 1988, 146 million yuan of which came from township industries. Over 150 yuan, or almost one-half, of the per capita yearly income throughout Tibet of 342 yuan, came from township enterprises and the diversified economy by 1988. Although these figures are not at all comparable to those for certain prosperous coastal and inland counties and villages, one look at Tibet's base will give a deep understanding of how hard-earned were Tibet's present achievements.

Peng Shisheng continued his analysis as follows: The development of township enterprises has both aroused the enthusiasm of the people of the Tibet Autonomous Region to eliminate poverty and get rich, while also initiating a certain change in their traditional understanding of a commodity economy. This was a very big advance. Township enterprises throughout the Tibet Autonomous Region now have a corps of workers 50,000 strong, that are distributed in over 11,000 enterprises run by townships, villages, individuals, and collectives. They are engaged in producing and manufacturing local specialties, minerals, and traditional minority manufactured goods, as well as working in transportation and service trades. The products that they produce, such as Tibetan rugs, tourist goods, and local specialties with distinctive minority features, all enjoy great prestige on the international market, and their supply has never been able to keep up with their demand.

Peng Shisheng outlined Tibet's plans for the immediate future as follows: 1) Taking part in this township enterprise export commodity exhibition has opened our eyes to the achievements of other provinces and cities. We are going to take advantage of the opportunity to take part in this exhibition to further speed up the development of township enterprises throughout the Tibet Autonomous Region, gradually sum up experiences, and try to find approaches that are suited to Tibet's development. The Tibet Autonomous Region party committee and government are very clear about this guiding ideology. 2) We are going to begin to focus on helping to develop our existing 320 key collective enterprises, expanding their cooperation with the interior, and reversing as quickly as possible the present low efficiency of our workforce that is engaged in simple reproduction and exporting mostly natural resources. The three plants that were built in 1989 for rough machining of copper, gold, and silver ores, will increase our development stamina in 1990 and develop a number of hot-selling products like those of other provinces. 3) We are going to continue to emphasize training of Tibetan cadres and rely on them to develop Tibetan industries. In addition, we are going to produce more export goods in line with Tibet's natural resource characteristics, since Tibet enjoys exceptional

advantages in this area. Although objective factors, such as transportation, power, and oxygen shortages in the highlands are now severely limiting the development of township enterprises in the Tibet Autonomous Region, we will absolutely not allow them to shake our determination to succeed.

Peng Shisheng is full of confidence in Tibet's prospects for developing township enterprises. Although he has not taken a vacation for five years and has a wife in Kunming, a daughter in Shanghai, and an aged mother in Wuhan, all of which are large and appealing cities, he is determined to stay on in these mystical highlands until he retires, because this is where his dedication lies. Peng Shisheng is determined to continue to quietly pay tribute to the township enterprises in Tibet's mystical highlands!

## FOREIGN TRADE, INVESTMENT

### Devising Scale for Foreign Debt

900H0092A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 9, 30 Sep 89 pp 4-8

[Article by Huang Zhongfa (7806 0022 4099): "Inquiry Into the Suitable Scale for China's Foreign Debt"]

[Text] According to statistics, at the end of 1988 China's foreign debt was close to \$40 billion, and its growth rate since 1985 has continued to be maintained at a level of more than 30 percent. This high-speed development is rare in the history of world debt. It will cause in China the nineties to be the first peak period in debt repayment. Therefore, studying the suitable scale for foreign debt has become an extremely urgent practical problem.

### 1. Two Viewpoints on the Question of the Suitable Scale for Foreign Debt

In theoretical circles now there are two viewpoints on the question of the suitable scale for foreign debt.

First, there is the "theory of flow (quantitative) indices determination," or "security line." This is both the customary international formulation and a viewpoint now prevalent in China's theoretical circles. This viewpoint holds that whether a country's scale of dependence on foreign loans is suitable in the main can be judged, evaluated, and determined by the debt repayment rate, the debt burden rate, and other flow (quantitative) indices. For example, internationally a debt repayment rate of 25 percent is regarded as the "security line" in the scale of dependence on foreign loans. If this "security line" is overstepped, then the dependence on loans is thought excessive and credit falls, and also, because it will be difficult to repay the debt, there will be a debt repayment crisis. If the debt repayment rate is less than 25 percent, then the scale of dependence on loans is thought suitable and perfectly safe.

Second, there is the "theory of dynamic equilibrium." Comrades who hold this viewpoint think that, in judging

whether the scale of foreign debt is suitable or not, one cannot just look at several quantitative indices, but one should analyze and study the dynamic movement of the debt, because the management of the scale of foreign debt itself is constantly changing and developing. Therefore, one should not overstress the equilibrium of one-two year regular accounts, but should look at the changes and developments in international finance and act according to circumstances. When conditions are favorable (for example, the interest rate is low, the capital flow is good, the exchange rate risk is small, and the cost of raising capital is low), there can be a little more borrowing; when conditions are unfavorable, foreign borrowing should be cut back. If by a given time (such as five years) equilibrium can be achieved, and maybe even a surplus obtained, then even if temporarily the remaining debt is a little large and the debt repayment rate is a little high, these two things need not be regarded as danger signs.

It is not difficult to see that the first of the abovementioned viewpoints advocates the establishment of a system of quantitative indices for the suitable scale of foreign debts, and uses flow indices to analyze, judge, and control the scale of China's dependence on foreign loans. In actual work, this possesses the merits of being simple and clear and being convenient to operate, and thus it has a desirable aspect. However, because the greater part of these quantitative indices only reflect the simple relative situation of the debtor country in debt income and outgo in a given period or at a given time or place. Therefore, simply applying one so-called unified quantitative index to judge whether a foreign debt scale is suitable is obviously not practical and realistic, and it will be difficult to effectively control the suitable scale for foreign debt.

The second of the abovementioned viewpoints proposes that the question be examined dynamically and that, keeping the long-term development in mind, the control of the suitable scale for foreign debt be strengthened. As an idea this is desirable. However, if we completely abandon the control of the scale of the annual debt and the management of the quantitative indices on the debt, not only will we cause fluctuations in debt and damage the balanced development of debt, but also it will be disadvantageous to the actual operation of controlling the scale of foreign debt and might even, because of the loss of control of the scale of the annual debt, produce an "accumulative effect" on the debt and a "lag effect" on the repayment of capital with interest on the foreign debt, causing a debt crisis. In this respect, the lessons provided by the developing countries are profound. Before 1973 the total foreign debt of the developing countries was at most no more than \$200 billion. Now, in 1988, after an interval of only 15 years, this figure has sharply increased by more than five times to as high as \$1.3 trillion, causing a protracted, serious major debt crisis. Therefore, the consequences of only pinning one's hopes on midterm and long-term balance, and abandoning control of the scale of the annual debt, are too ghastly to contemplate.

After a comprehensive analysis, I think that, in judging, evaluating, and determining the suitable scale for

China's debt, we must not oversimply use the several quantitative indices that are customarily used internationally, and also must not neglect the scientific application of quantitative indices and their important role in the control of the suitable scale for the debt. The correct practice is, proceeding from the needs and possibilities of the development of the national economy, to accurately grasp the changing trends and opportune times on the international financial markets, taking the improvement of the macroeconomic benefits of the foreign debt as the core, and with the flow analysis indices as the actual operating measures, to judge and decide the suitable scale for foreign debt.

## II. Determination of the Suitable Scale for Foreign Debt

### A. Theoretical Principles for Determining the Suitable Scale for Foreign Debt

For any country, any region, and even any enterprise, there is a question of the suitable scale for foreign debt. There are two principles for the suitable scale: one principle is that the development of the scale of the debt should be kept within the capacity that the country's economic forces can bear; the other principle is that the use of the entire foreign debt at the very least should not cause a change in the scale's beneficial results, and as much as possible to cause the gains from the scale to increase progressively and attain an equilibrium in development and not cause a progressive decrease in the gains from the scale.

Therefore, theoretically speaking, the determination of the suitable scale for China's foreign debt ought to cause every increase in economic gains obtained by a unit's foreign debt (namely, the state income created) to be larger than every increase in the cost of raising capital borne by the unit; the limit scale (namely, the maximum scale) of foreign debt is that every increase in a unit's income obtained by foreign debt be equal to every increase in the cost of raising capital borne by the unit's foreign debt. If the income obtained by a unit's use of foreign debt is smaller than the cost of raising capital by the unit's foreign debt, then it shows that the scale of the foreign debt is too large and exceeds the capacity of the state's economy to bear it. The domestic capacity for forming complete sets and for absorbing and digesting them will shrink, and there will be a progressive decrease and even deterioration of the gains obtained from the foreign debt scale. If the amount of foreign debt is not reduced and the scale of the debt is not effectively controlled, there will appear unavoidable difficulties in the debt repayment and a debt crisis will break out.

### B. The Principal Bases for Determining the Suitable Scale for Foreign Debt

#### 1. The Economy's Development Rate and Accumulation Rate

Within a certain measured period of time, the amount of added accumulation needed to maintain economic development at a certain growth rate is one of the bases

for arranging accumulation and consumption and for determining that period's suitable scale for foreign debt.

China is still in the initial stage of socialism, and for it to carry out socialist modernization it needs to maintain a certain economic growth rate, but it faces the contradiction of insufficient construction funds. To resolve this contradiction, naturally one cannot adopt the method of, directly or indirectly, holding down the people's living standard and raising greatly the accumulation rate in order to raise construction funds; at the same time, proceeding from a long-term, stable, coordinated development of the national economy, one also should not cause big rises and big falls in the proportion of accumulation and consumption in the national economy. Therefore, in a given period, through achieving the final distribution of the national income achieved by the state's finances, we cannot and also should not greatly adjust upward the accumulation rate at one fell swoop. If we demand an economic growth rate of 7 to 8 percent, then, under the circumstances that the investment coefficient is 2.5 to 3 and the accumulation rate can only be maintained at the original level or with a little increase, a part or a large part of the additional accumulated funds needed must be raised by borrowing and incurring foreign debt. This part is the required amount of foreign capital (debt) for maintaining, within a given period, the necessary rate of development of the national economy.

## 2. A Given Year's Currency in Circulation on the Market, the Scale of Capital Construction, and the Amount of the Means of Production Supplied, as Well as the State of Supply of Commodities in the Entire Society

Borrowing and using capital from abroad generally expands the scale of construction, thereby increasing the total amount the wages of staff and workers and increasing the funds for social consumption. The more the amount borrowed abroad and the bigger the scale of this borrowing, the more currency there is in circulation on the market, and the amount of commodities in demand will swiftly increase. The use of foreign debt will, of course, increase the supply of commodities in society. However, under the circumstances in which the amount and the composition of commodities frequently lag behind society's demand for rapid growth, if we, while borrowing from abroad on a fairly large scale, cannot take effective measures to increase the amount of commodities (especially agricultural and sideline products) on the market, then the contradiction between supply and demand in commodities could be further expanded and lead to inflation and price rises. Price rises will cause a fall in the amount of exports and reduce income from foreign exchange, thereby weakening the ability to repay the debt. It is thus obvious that the scale of borrowing from abroad must be restricted by the amount of commodities supplied; at the same time, the amount and scale of borrowing from abroad is restricted by the scale of domestic capital construction and the supply of the

means of production. If we ignore the situation in the domestic supply of the means of production (especially the current backwardness of the basic industries and the current shortage in the means of production) and blindly expand the scale, the domestic auxiliary materials needed for foreign debt construction projects will certainly come to nothing, causing a disappointedness between foreign exchange resources and domestic resources and adversely affecting investment benefits and exchange income, and thereby weakening the ability to repay the debt. Therefore, the scale of foreign borrowing can only, in line with a certain proportionate capital construction scale and the amount of the means of production supplied, grow simultaneously. Speaking in this sense, the situation with regard to the amount of currency on the market, the scale of capital construction and the supply of the means of production, as well as the supply of commodities in the entire society can be made one important basis for measuring the capacity of the foreign debt and for determining the suitable scale for the foreign debt.

## 3. The Comprehensive Balance Among Finance, Credit, Materials, and Foreign Exchange

We need, from the angle of integration with the national economic value movement of the international balance of payments, to analyze the other factors that affect and restrict the amount and scale of borrowing from abroad. Generally speaking, under the pressure of insuring economic benefits, the use of foreign debt promotes production and increase the state's financial revenue, thereby increasing the domestic auxiliary funds and creating conditions for further borrowing and incurring foreign debt; also, it is advantageous for the comprehensive balance of the national economy with finance as the pivot. However, at the same time we should see that the scale of foreign debt must be affected and restricted by this comprehensively balanced system. First of all, the amount and scale of borrowing must be restricted by the scale of capital construction in the state budget and by the capability for providing auxiliary materials and funds. If the amount and scale of the borrowing are excessively large, the auxiliary funds will certainly be forced to increase by a large amount. This will directly increase the state's financial pressure and the demand for bank credit. If the capacity of the finance and bank credit is exceeded, financial deficits and credit inflation could be created, causing a loss of balance among finance, credit, and materials. Next, the amount and scale of the borrowing must be restricted by the state of supply in bank credit funds. The difference in credit revenue and expenditure will be manifested in the net increase in the cash put into circulation, and it will create too much currency, an inadequate supply of materials, a rise in prices on the market, and inflation. From this will be caused a fall in the exchange generated by export, leading to a loss of balance in the revenue and expenditure of foreign exchange and thus a weakening of the ability to repay the debt. Therefore, we should, proceeding from finance, credit, materials, and foreign



exchange—this comprehensively balanced system—give full consideration to their growth indices as well as to the difference in import-export trade in order to calculate the maximum capacity of foreign debt in the development of the national economy.

### III. Analysis of the Measurement and Determination of the Main Flow Indices for the Scale of Foreign Debt and the Relevant Restrictive Factors

As was said before, in measuring, analyzing, evaluating, and determining the scale of borrowing from abroad, we must not overlook the application and control of the flow indices, which acts as a quantitative manager and is an indispensable means for controlling the scale of foreign debt.

#### A. The Index for the Debt Repayment Rate

This is the main index now for international analysis and measurement of a country's ability to repay debt. It is a comparison of a country's amount of repayment of capital with interest on its foreign debt in a given year with the country's amount of revenue generated by exchange through export in that year.

Now, internationally, a 20 to 25 percent debt repayment rate is the security line for the scale of borrowing. Going past this demarcation line means going past the danger point in the ability to repay the debt, and difficulties will appear in debt repayment and a debt crisis will break out.

I think that the internationally stipulated index for the debt repayment rate can only be a numerical value for reference and must not be copied rigidly. This is because there are very many and very complex factors relating to economic development, the national condition of each country is different, and the level of each country's economic development is not the same. In the same country, at different times, the state and condition of economic development constantly change. Therefore, even with the same debt repayment, the ability to bear the risk of debt is not the same. For example, some countries, like South Korea, because they have a high level of foreign credit, and because domestically they are able, based on the state of development and the change in the debt, to adjust at the appropriate time the debt structure, their debt repayment rate in the long term reaches and even goes past the internationally stipulated "security line" without the occurrence of debt repayment difficulties and the outbreak of a debt crisis. In other countries, like the low-income countries of Trinidad and Tobago and Zaire, because the level of their social productive forces is low, their economy is not developed, their state economic forces are weak, and other factors, under the circumstances in which their debt repayment rates are less than seven percent and 13 percent, which are fairly far from the international "security line," they still have debt repayment difficulties and fall into a debt crisis. In 1982, serious debt crises broke out in Brazil, Mexico, and other Latin American

countries, and their debt repayment rates were only about 18 percent and did not reach the international so-called "security line."

It is thus obvious that the internationally stipulated so-called "security line" index can only be used for reference and cannot be used for evaluating and judging whether a country's scale of foreign borrowing is suitable or not, or be the only yardstick and standard for whether or not debt repayment difficulties will appear. Based on its requirements for and possibilities of economic development in each period, each country should, especially given the debt repayment ability formed by benefits generated by exchange in debt-oriented exports, determine the proper scale for its foreign debt.

As for China, its debt repayment rate now is only about 10 percent, a certain distance from the current international "security line." Therefore, some comrades in theoretical circles and practical departments, taking this as a reason, think that China should further expand the scale of its borrowing in order to swiftly make up the insufficiency in domestic construction funds.

But I think that, although from a long-term view, following the deepening of reform and the further implementation of the policy of opening up to the outside world, and following the continued development of the outward-oriented economy in the coastal zones, the state's economic forces will gradually be strengthened. However, now, in the beginning stage of the work of foreign borrowing, there is a lack of experience in the administration and management of foreign debt, and the benefits derived from China's disposition of foreign debt and use of foreign funds are not very ideal. Especially in recent years, the foreign debt has continually grown at the high rate of more than 30 percent, causing the swift expansion of the scale of the foreign debt and forming a peak in debt repayment in the nineties. Therefore, for a period of time in the future, there should be a stable rise in the foreign debt, and it will not be suitable to set the debt repayment rate too high. Maintaining it at about 15 percent will be suitable, for the following reasons:

First, setting the debt repayment rate at about 15 percent has already been calculated as a positive factor. On the basis of an annual average growth of about 10 percent in export-generated exchange, it causes the foreign debt to grow at an annual rate of six to seven percent, lower than the rate of economic development stipulated in the national plan for economic and social development, and in line with the general principle that the foreign debt growth rate must be slower than the national economic growth rate.

Second, in the composition of China's export products that generate exchange, the proportion of primary is large while the proportion of processed products, high scientific and technological products, and high add-on value products is small; and with regard to the imported commodities needed every year for the construction and development of the national economy, it will be difficult

to reduce the amount of foreign exchange needed to pay for them. Therefore, the situation in China's import and export trade is that the export capability is not high, the level of exchange generated is low, the elasticity of import and export is small, and within a short period of time it will be difficult to make a fairly large improvement in the international balance of payments. If the debt repayment rate is too high, once difficulties appear in debt repayment there will be little room for maneuver, and from this there could be created a state of passivity in all economic work.

Third, the domestic capacity for absorbing and digesting foreign debt is limited: First of all, this is manifested in the low capacity of domestic auxiliary funds. For nine out of the 10 years of reform, there has been a financial deficit. The state's financial power has been fragile, and within the near future it will be difficult to achieve a big rise in the state's auxiliary financial power with regard to foreign debt (funds). Next, the material auxiliary capability is not strong. First, there is a tight supply in the auxiliary energy, communications, and raw materials needed for foreign debt construction projects, and the scale of expanding China's foreign debt construction projects is restricted. Second, the tight supply of commodities on China's markets, especially under the pounding in recent years of a high rate of inflation in which prices have risen sharply, will cause a big drop in the exchange generated by export, thereby weakening the debt repayment ability. This also restricts and determines that within the near term the steps taken in foreign borrowing cannot be too large. Finally, because China's ability to manage its foreign debt is weak, at present it still lacks a specialized contingent that is familiar with the international financial profession and the techniques of its operation.

#### *B. The Index for the Debt Burden Rate*

This means the comparison between a country's remaining foreign debt and its gross national product in a given year.

Usually the debt burden rate is initially set at 20 percent, and it is thought dangerous to go past this demarcation line. Actually, this is not an absolute and must not be copied rigidly. The debt burden rate index is used to examine the state of a country's foreign borrowing and its entire national economic development, and it should be used with caution. Proceeding from China's basic national condition, in which its population is large, its foundation is weak, its level of productive forces is low, and its per capita gross national product is small, I think that, for a certain period of time in the future, it will be suitable to maintain the level of China's debt burden rate at 12 to 13 percent.

The history and the present state of development of debt in the countries of the world show that the internationally set 20 percent debt burden rate index is not completely "safe." Generally speaking, it only abstractly comes from the level of development and the conditions

for development of each country's specific economy. The strength of a country's economic forces and the level of its per capita gross national product determine the level of the debt burden rate, as well as whether there will appear a problem of breaking a debt repayment contract. With debt burden rates respectively of only 8.9 percent, 13.2 percent, and 7.5 percent, in Brazil, Mexico, and Argentina serious debt crises broke out in succession.

Although China's current debt burden rate is only about 12 to 13 percent and, compared to the levels prevalent internationally, is not high, if we take into consideration China's benefits from its use of foreign debt and its ability to generate exchange from exports in recent years, as well as the situation in which the beneficial results of the entire economy are still at a fairly low level and the per capita gross national product is in the world's back rank, there is no reason to be optimistic about the current state of China's foreign debt. Especially if the high-speed growth of foreign debt over the past several years continues, within five years China's debt burden rate index will go far past the 20 percent upper level of the international index. Under these circumstances, if we wanted to continue to raise the level of the debt burden rate, that would obviously be unrealistic and dangerous. Therefore, in line with China's export-generated exchange ability and its ability to bear the entire national economy, it would be fairly suitable to maintain China's debt burden rate at this level. The key to the problem is that we must make an effort to improve the benefits derived from using the foreign debt.

#### *C. The Level of Foreign Exchange Reserves*

Foreign exchange reserves are part of a country's economic resources. They include gold, the reserve money supply in the International Monetary Fund, foreign exchange bills, checks, negotiable securities, and account exchange bills. They are mainly a means of payment when balancing international revenue and expenditure.

Foreign exchange reserves are also an important indicator for judging the strength of a country's ability to pay off its debts. When the level of foreign exchange is high, a country's ability to deal with an adverse balance of international payments and other temporary situations (like the repayment of capital with interest on short-term debts) is strong; when the level of foreign exchange is low, a country's ability to pay off its short-term debts is comparatively weak. In line with the characteristic that China's current export-generated exchange ability and foreign exchange reserves are both at a fairly low level, it will not be suitable for China's foreign debt scale to be too large. A suitable level is to make the remaining sum of the grand total of its foreign debt at two times the foreign reserves; that is, maintaining a 2:1 ratio. In fact, the remaining sum of China's current foreign debt actually exceeds this level, and this poses a problem worthy of attention.

What particularly needs to be pointed out is that, in judging and determining the suitable scale for foreign

debt, besides taking into consideration the abovementioned factors, we should take into consideration whether, for specific foreign debt projects, we have the ability to repay. Of course, this does not require that for every project it itself has the direct ability to repay with foreign exchange, but after the greater part of the projects go into operation they should have the direct ability to generate exchange and to repay the debt. Some foreign debt projects that cannot directly generate exchange must also take into consideration the comprehensive social and economic benefits that they bring; that is, they must have a fairly high social net income and thereby have an indirect ability to repay the debt. Only in this way can we put the repayment of foreign debt on a solid footing and maintain and achieve a good development in the work of foreign borrowing.

### **Trade Policy Toward Taiwan To Remain Unchanged**

90OH0206A Beijing GUOJI SHANGBAO in Chinese  
28 Nov 89 p 1

[Text] A responsible person from the Ministry of Foreign Economic Relations and Trade (MOFERT) on 25 November issued a statement concerning the trade policy toward Taiwan.

This responsible person said that recently the press in Hong Kong and Taiwan have used our announcement of the lists of the companies engaged in import trade with Taiwan to make the presumptuous judgement that we are taking measures to reduce trade with Taiwan. Some newspapers and periodicals have even reported that we will rescind the right of Taiwanese subsidized enterprises to import raw materials from Taiwan so that Taiwan businessmen will withdraw investments and "submissively hand over their factories." These views are merely groundless conjecture with some being used for ulterior motives.

In the last few months, leaders in the Chinese government have earnestly reaffirmed on many occasions that China's policy of reform and opening up will not change and that our general and specific policies concerning Taiwan will also not change. The responsible person from MOFERT also issued a statement declaring that we will not change our economic and trade policies toward Taiwan. We mean what we have been saying all along.

The truth is that Taiwan subsidized enterprises established in the mainland are the same as enterprises set up with foreign investments, while the channels they use for importing raw materials necessary for their enterprise's production and their management methods are different from those for mainland enterprises and consumers. According to the 11th provision of the "stipulation from the State Council concerning encouraging investment by compatriots in Taiwan" held in 1988, enterprises set up in the mainland by compatriots in Taiwan can freely import raw materials, fuel, miscellaneous items, spare parts, and necessary components used in the production of exports, and that these will be exempt from tariffs,

standard industrial and commercial taxes, and also be exempt from obtaining an import license. This provision is explicit and clear. Enterprises set up with investment by compatriots in Taiwan already in operation have no doubts concerning this provision. We hope that the vast number of firms in Taiwan will not listen to rumors that create misunderstandings.

When talking about indirect trade between the two coasts, the responsible person said, in the last 10 years, in spite of obstructions and restrictions by Taiwan authorities that have created an abnormal economic and trade exchange between the two shores of the Taiwan Straits, the hard work of people in industrial and commercial circles from both sides has resulted in extremely rapid development of indirect trade between the two. The development of Taiwan exports to the mainland has been especially great with the amount exceeding \$2 billion last year. This clearly shows the sincerity of our policy towards Taiwan for carrying out and opening up trade. In order to improve the clarity of the policy and make it convenient for Taiwan industrialists and businessmen to conduct trade activities in the mainland, we have been publicizing and explaining the current trade policy towards Taiwan in newspapers and in our contacts with Taiwan businessmen. Taiwan industrialists and businessmen who pay close attention to the mainland and the Taiwan authorities both have a clear understanding of our policy.

During the "economic exchange activities between the two sides of the Taiwan Straits" held at the 66th Chinese Export Commodity Trade Fair this fall, we further briefed Taiwan businessmen on our current economic and trade policy towards Taiwan. We pointed out that in order to expand exports to Taiwan and to balance trade between both sides, all our foreign trade companies can expand their exports to Taiwan under a scope approved by the state. Since Taiwan authorities still forbid direct trade with China and its economic and trade personnel to enter Taiwan, China, in order to protect the various trade interests of both sides, has all along stipulated that mainland enterprises and consumers who import Taiwan products must be approved by MOFERT as foreign trade companies. This in no way involves the import channels of Taiwan investment enterprises. The purpose of this special announcement of the approved list of foreign trade companies, industrial trade companies, and provincial-level foreign trade companies that engage in import trade with Taiwan is so that when Taiwan businessmen come to the mainland they will know who to contact. This would make it more convenient, and eliminate most red tape in conducting business. The list of companies is not complete because a small number of provinces and autonomous regions that developed trade with Taiwan comparatively late have a small trade volume, purposely not designating companies conduct trade with Taiwan, thereby not putting them on record with MOFERT.

Something that must be pointed out is that the approval by MOFERT for foreign trade companies and industrial



trade companies to engage in import trade with Taiwan is the way it has been done for the last 10 years: it is not a new policy. In the early stages of indirect trade between China and Taiwan, we only gave approval for state-run special foreign trade corporations to engage in import trade with Taiwan. Later, with the development of reform and opening up to the outside and the warming of relations between the two sides, we gradually relaxed the restrictions on conducting import trade with Taiwan by individual companies and extended these relaxations to include multipurpose foreign trade companies at the levels of province, autonomous region, and municipality directly under the central government. Restrictions were relaxed more in the provinces of Guangdong and Fujian due to the large trade volume these provinces have with Taiwan. For example, Guangdong has five companies that can engage in import trade with Taiwan. In addition, the provinces of Jiangsu, Zhejiang, Fujian, and Guangdong plus the municipality of Shanghai have dozens of companies that conduct a small amount of trade with Taiwan, these companies, in accordance with regulations, can conduct limited business with Taiwan fishing boats. Import trade with Taiwan has been conducted through these channels for many years and it has not caused any inconvenience for Taiwan businessmen. Publishing this list of companies definitely does not mean that we are adopting any restrictive measures; to the contrary, it is to further open up trade.

Due to Taiwan authorities stubbornly maintaining a policy of "three nots," the trade exchange between China and Taiwan has been incapable of being carried out in a normal and orderly manner. This recent episode of distorted press reports once again prominently shows how much both side's industrialists and businessmen and departments responsible for economic relations and trade want direct contact. Only through direct contact can we handle situations in a timely manner, eliminate misunderstandings, and resolve problems. In this way we can affirm the benefits and economic relations and trade for each side and make both sides welcome. This responsible person expressed the hope that the Taiwan authorities would conform to the trend of the times, face reality, and as quickly as possible establish contact with us so that we can promote the healthy development of economic and trade relations for both sides and accomplish some practical and beneficial work.

#### **Discussion of Credit Problems of Foreign-Funded Enterprises**

900H0192A Beijing GUOJI SHANGBAO in Chinese  
28 Oct 89 p 3

[Article by Zhang Yixing (1728 0076 5281): "The Problems of Enterprises With Foreign Investment From the Credit Perspective"]

[Text] According to statistics, almost 20,000 enterprises with foreign investment have been approved by China, of which more than 3,000 have credit relations with Chinese banks, over 80 percent of the foreign-funded

enterprises that keep an account in Chinese banks. This article offers a brief look at the credit-related problems of enterprises with foreign investment.

#### **The Formulation of Laws, Rules, and Regulations Is a Burning Issue in Our Drive To Attract Foreign Investment**

State power flows from the law. A sound legal system promotes and conditions economic development. The 3d Plenary Session of the 11th CPC Central Committee put the establishment of a sound legal system on the government's agenda. But even as the open policy was broadened and despite the promulgation and implementation of several pieces of legislation to attract foreign investment, they are still far short of what is actually required. For instance, it is still an open question when the mortgage law which is badly needed in credit work will be promulgated or when the foreign bankruptcy law would be announced. Nobody knows when the company law would take effect, not to mention the foreign stock law. Foreign investors are used to operating in accordance with the law, not the instruction of a certain leader or a certain internal document. When they are struck by the imperfections of Chinese law, foreign investors tend to hesitate to invest in China. To make them feel that investing in China is safe and profitable, we have taken a number of flexible steps in credit work. In the process we have satisfied the foreigners while remaining true to our principles, and created a microclimate attractive to foreign investors. For instance, instead of applying the laws of the PRC across the board in all cases, we also accept the jurisdiction of the laws of Hong Kong, Britain, and New York State in the United States, which are familiar to foreign investors. In other areas too we adopt practices consistent with international customs as much as possible. In extending a fixed assets loan, for example, a bank often demands that a surveyor be hired to protect the creditor's interests. But the surveying profession is still unknown in China while the idea of retaining a foreign surveyor is often unacceptable to the debtor because of the enormous expenses entailed. To safeguard the creditor's interests and out of consideration for the practical conditions of the debtor, we have proposed that the design institute, commercial inspection agency, and the Bank of Construction jointly be the surveyor to be accountable to the creditor. This flexible arrangement has proved highly satisfactory to the debtor. In the choice of courts too we are willing to be flexible by accepting the jurisdiction of Hong Kong courts and Chinese courts.

#### **The Sharp Conflict Between Guidance Planning and Command Planning**

In China, the attraction of foreign investment comes under guidance planning. All areas and major sectors are highly enthusiastic about foreign investors setting up enterprises. Each year foreign economic and trade relations departments approve a considerable number of projects. Industry and commerce administrative bureaus also issue an endless flow of business permits. In a

nutshell, guidance planning is highly flexible. Needless to say, the more foreign-funded enterprises there are, the better. However, in terms of financing, the bulk of these enterprises operate on borrowed money, which is the most common practice in the international business world today. They must borrow extensively from banks, particularly the Bank of China, which is specifically mentioned in the Sino-Foreign Joint Ventures Law. But as a lender to enterprises with foreign investment, the Bank of China comes under the strict control of state command planning. There are restrictions regarding the types, scale, currency, interest rates, and amounts of loans. These command-planning restrictions on credit are highly bewildering to first-time foreign investors in China. What are fixed assets loans and working fund loans? Why are fixed assets loans excluded from the capital construction plan? Why is technological transformation planning denied credit? In foreign countries there are few planning restrictions on credit, except that a loan is due for repayment within a specified period of time. Faced with this conflict between guidance planning and command planning, the Bank of China has adopted various measures. For instance, they have conducted advance publicity and made sure funds are actually available. As soon as a Chinese unit proposes setting up a Sino-foreign joint venture, the department in charge is alerted so that it can keep an eye on its funding situation when it reviews its application, as well as letting it understand what it takes to borrow from the Bank of China. Moreover, in drawing up its lending plan each year, the Bank of China gives as much consideration as possible to practical needs and follows a "squeeze the domestic" policy, flexibly shifting credit targets and credit funds around so that enterprises obtain the funds they need in time. In addition, the Bank of China was given special support by the state in the last two years to meet the urgent needs of a large number of enterprises. Needless to say, this writer also wants the state to establish a flexible credit target each year for the specific purpose of meeting the needs of enterprises.

#### **Finding a Way Out of Our Fund Shortage**

In these tight-credit, tight-money days, the Bank of China has given foreign-funded enterprises enormous funding support, but lending has simply not kept pace with the growing demand for credit. To meet the need of enterprises, the Bank of China may introduce new ways to raise funds, as can enterprises. Besides the traditional credit activities of a bank, in recent years the Bank of China has introduced syndicated loans, entrusted loans, joint loans, and merchandise-related loans, to name a few. In the future it will introduce yet more fund-raising methods depending on China's national circumstances to meet the diverse needs of enterprises. Enterprises can also adopt an array of fund-raising methods. Here we will make just one proposal, namely setting up a fund for enterprises with foreign investment. The fund will be a mutual aid funding organization. The association of enterprises with foreign investment may be asked to manage it, or its members may form a management

committee. In short, while management may take any one of a number of forms, there is just one purpose—to promote the common development of enterprises. The amount of contribution by each participant in the fund will be determined in accordance with its charter and shall be made voluntarily, with a minimum amount of capital specified. The funds shall be spent on fund members only and shall be repaid. When a member borrows from the fund, it shall be required to put up collateral and shall repay the loan within a short period of time. At a specified time dividends may be paid out in accordance with the amount of capital of each member. Another proposal is for an export venture fund for enterprises with foreign investment. It may be organized more or less the same as the fund above and is intended to ensure income for the foreign-funded enterprise as it exports. In case of a risk, it may be compensated. When the risk fund attains a specified base figure, a portion of its funds may even be set aside for loans to fund members.

#### **Problems in Foreign Exchange Quota Accounts**

90OH0189C Beijing JINRONG SHIBAO in Chinese  
11 Nov 89 p 2

[Article by Zhu Xingjian (2612 2502 1696): "Tightening Control Over Foreign Exchange Quota Accounts"]

[Text] "Profit-retained foreign exchange quota unified ordering accounts" are a kind of profit-retained foreign exchange quota accounts used by centralized units in importing. This is how they work. First of all, the profit-retained foreign exchange quotas of all commissioned importing units are added up and then redistributed among import-export companies, which are responsible for negotiating with foreigners, signing contracts, making payment in foreign exchange, settling accounts, and collecting fees for handling imports. This puts an end to the separation between the exclusive trading rights of special companies and the right to import and export.

Judging from the reality in foreign exchange quota control at the moment, there are more and more companies with no power to import and export that need to open "profit-retained foreign exchange quota unified ordering accounts." Some problems have arisen in the process of using such accounts:

1. Because of their failure to understand the nature and purpose of "profit-retained unified foreign exchange quota ordering accounts," companies which apply to open such accounts include in them their own day-to-day profit-retained foreign exchange quotas.
2. According to relevant foreign exchange control regulations, units may not quote prices or settle accounts in foreign currency in China without permission from the State Administration of Exchange Control. Some companies, however, which have exclusive right to trade in certain commodities, quote prices and settle accounts in foreign currency without authorization from the State

Administration of Exchange Control. The incomes derived from there are then deposited in "profit-retained foreign exchange quota unified ordering accounts."

3. Some special companies deposit foreign exchange quotas borrowed through various channels to be used as temporary working funds into their "profit-retained unified foreign exchange quota ordering accounts."

4. A handful of companies use these accounts to allocate and transfer foreign exchange quotas to other companies.

In view of the above conditions, foreign exchange control departments should improve the classified management of the opening of foreign exchange quota accounts and foreign exchange quota. When they apply to open profit-retained foreign exchange quota accounts, different units verify their sources of foreign exchange differently. Since the sources are different, these units should be handled differently when they apply to open accounts and their accounts should also be managed differently. In case of an inward transfer of foreign exchange quota, the company with a "profit-retained foreign exchange quota unified ordering account" should produce every relevant commissioning agreement. In case of an outward transfer of foreign exchange quota, the company should produce all agreements and contracts signed with the import and export companies acting as an agent which are related to each foreign exchange quota transaction.

"Profit-retained foreign exchange quota unified ordering accounts" should be inventoried regularly (annually or semi-annually). Because they are working-funds accounts, their annual balance should not be too high and should ultimately be zero. Foreign exchange control departments should appoint workers to visit the companies at irregular intervals to specially verify the incomes and expenditures of these accounts. The companies should strictly use and manage their accounts opened in accordance with relevant foreign exchange quota account regulations established by the State Administration of Exchange Control.

#### Joint Business Ventures Sought in Dubayy

44000138Z Dubayy GULF NEWS in English  
7 Dec 89 p 13

[Article by Eudore R. Chand: "More Projects With China on the Anvil"]

[Text] China has offered to set up several hi-tech manufacturing projects in petrochemicals, dry cell batteries, alarm systems and fire fighting equipment, and others, on a government to government joint venture basis.

Most of these if agreed upon are likely to be located in the Jabal 'Ali Free Zone. The rest will be located elsewhere in the UAE.

Government to government discussions on the issue are going on between the UAE and the People's Republic of

China, said Yang Han Xin, commercial counsellor at the newly opened Chinese consulate general in Dubayy yesterday.

He said one of the projects under discussion is the establishment of a petrochemical plant in the UAE for the production of fertilisers, urea and other products.

Discussions with both Dubayy and Abu Dhabi are going on, he said. Earlier this year a Chinese team conducted the feasibility study for the plant at the Jabal 'Ali Free Zone. However, the main stumbling block appears to be the supply of gas, the basic raw material for the project, Xin said.

China has offered to provide the equipment, technology and the experts to erect and run the plant. It has asked Dubayy to finance the project and to ensure a regular supply of gas.

It has also offered to buy back the output of fertilisers and urea which it currently imports from the UAE, Xin said. However, no decision has been made as yet.

Other hi-tech projects under discussion, especially with the Dubayy government, include joint ventures in the manufacture of button-cell batteries for the watch and computer industries, manufacture of alarm systems, and production of fire-fighting equipment, Xin said.

Al-Sharqah Chamber of Commerce and Industry Chairman requested the Liaoning province delegation, which visited al-Sharqah recently, to look into the feasibility of utilising waste glass and scrap iron and steel.

Other projects involve manufacturing spectacle frames and handkerchiefs in Dubayy.

Xin said China has set up over 20 commercial establishments in the UAE through its state-owned corporations.

The Chinese commercial counsellor said a memorandum to review and strengthen bilateral trade relations was signed at the recently concluded meeting of the Joint Business Council. The meeting was satisfied with the growth rate achieved in bilateral trade since it met for the first time last November in Peking.

The third JBC meeting has in principle been decided to be held in Peking next year, Xin said.

The memorandum also called for increased imports from each other. Upon UAE's request, China has agreed to increase its imports of urea, diesel, raw materials for plastics manufacturing, and aluminum from Dubayy. Other items are being explored.

The UAE is also seeking China's help in cultivating desert areas and beaches, exploitation of marine resources and agricultural production. China has also agreed to provide more massage doctors for UAE hospitals, Xin added.

He said China welcomed UAE investment and entrepreneurship in its industrial sector, both in the private and



the public sectors. Citing the example of Kuwait, which has extended soft loans for over 30 industrial projects in China, Xin said all these projects are doing exceptionally well.

The loans are being utilised in the key sectors such as electricity production, transport facilities, energy, upgrading of key industries and in setting up of export-oriented projects.

China is doing well in its exports to the UAE. At the same time its imports are low.

According to half-yearly statistics this year, imports by Dubayy have reached over 60 per cent of the total imports from China last year, suggesting that last year's figures will be surpassed. On the other hand, exports and re-exports stood at 42 and 50 per cent.

Xin said though the potential for growth in trade between China and the UAE is tremendous, there are some obstacles such as the non-availability of direct telephone and facsimile services and difficulty in obtaining driving licenses which, if removed, will pave the way for further growth.

#### **Mauritius Approves Hong Kong, Shanghai Offshore Banking**

90EF0145C Port Louis LE MAURICIEN in French  
30 Nov 89 pp 1, 4

[Article: "Offshore Permit for S.B. International and Hong Kong and Shanghai Bank; Mr. I. Ramphul Hopes for Japanese Presence in Banking Sector"; passages in italics published in English]

[Text] Applications for operating permits in the offshore sector submitted by *S.B. International* and the *Hong Kong and Shanghai Banking Corporation* have been approved by the Bank of Mauritius.

These two institutions will, therefore, join *Barclays Bank*, the *Edmond de Rothschild Group*, and *Baroda Bank* in the offshore sector. For the present, only *Barclays Bank* is operational; the other banks will be at the start of next year. We note that *S.B. International* is the first joint venture (*State Bank of India* and *State Commercial Bank*) to obtain an "offshore" permit.

Furthermore, receiving the new Japanese ambassador, Mr. Harashima, yesterday morning, the governor of the Central Bank, Mr. Indur Ramphul, expressed the desire of the country's bank officials to see Japanese banks established in both the local and offshore sectors. Mr. Harashima indicated that he would advise the appropriate Japanese authorities of this matter.

The discussions also centered on Japanese-Mauritian trade and, in connection with this, Mr. Ramphul noted that the trade balance was definitely unfavorable for Mauritius. The governor of the Bank of Mauritius then spoke of measures to encourage Japanese tourists to visit Mauritius. Mr. Harashima said that, while waiting for a

direct "Plaisance-Tokyo" connection, it would be necessary to organize more "group tours" and in this way double the number of Japanese tourists, which is currently 4,000.

Moreover, yesterday Mr. Ramphul met with two representatives of the Federal Republic of Germany's *Commerzbank*. Mr. Volk, the *vice president* for the "sub-Saharan Africa" region and Mr. Hagemann, representing the bank in Johannesburg, displayed interest in the offshore sector and asked for documentation on operating conditions to pursue the matter further.

#### **Guangxi Mobilizes To Meet Annual Export Target**

90OH0189B Nanning GUANGXI RIBAO in Chinese  
3 Oct 89 p 1

[Article by Zhao Yuncheng (6392 0336 4141): "A 90-Day Struggle Called To Meet Annual Export Target"]

[Text] "Mobilize everybody in the region from top to bottom. Understand the situation clearly. Unify our thinking. Instill confidence. Meet challenges in the face. Wage a 90-day valiant battle to fulfill the region's foreign trade procurement and export foreign-exchange earning plan this year." This was the principal mission of the regional foreign trade work conference held in Nanning from 26 to 28 September.

Chairman Shu Chunshu [2759 4783 2631] and Vice Chairman Chen Ren [7115 0088] of the regional party committee attended the conference and addressed the gathering.

The conference began by fully affirming the achievements of the region in foreign trade and export between January and September this year: an increase in exports over the same period last year and the on-time completion of the task of turning over foreign exchange to the central government. It was also pointed out that foreign trade procurements had declined and neither procurements nor exports met the monthly progress requirements and trailed the national levels badly. The task in the next three months would be daunting and the situation looks grim.

It was pointed out at the conference that the region's economic environment had improved overall and industrial output had maintained steady growth. Between January and August industrial output grew 8.3 percent monthly on the average and agricultural production has rebounded, with the region's output of dry grain expanding by over 1.2 billion kilograms. The price index has dropped, falling 17.7 points between January and August. The shortage of funds has eased and banks have decided to increase foreign trade loans shortly. All this provides a material and monetary guarantee for Guangxi's export drive.

It was emphasized at the conference that exporting to earn foreign exchange is an important matter for the entire region. Party and government leaders at all levels

and all economic departments should attach a good deal of importance to it and lend their strong support.

The people's government of the autonomous region recently decided to improve the management of the supply sources and prices of 19 staple export commodities. To encourage localities and enterprises to increase exports and earn more foreign exchange, it has introduced "inverse 2:8 ratio distribution" for the foreign exchange earned by that portion of exports in excess of the target. Also, it is making serious efforts to put the management of export commodities on a proper footing and, proceeding from reality, exports more commodities that incur moderate, little, or no losses, thus lessening the burden of subsidies.

The conference demanded that all prefectural, municipal, and county leaders and the leaders of bureaus and departments with the power to export on their own, concentrate their energies on foreign trade and export work during this period, assisting foreign trade enterprises and export enterprises to solve some of the latter's practical problems. Banks at all levels should apply a preferential policy toward foreign trade to relieve the shortage of funds in foreign trade. All prefectures, municipalities, and counties should secure sources of export commodities and do a good job in price management to prevent the jacking up of prices, panic purchasing, and the outflow of merchandise sources. Finance departments at all levels must appropriate export subsidies promptly. Planning departments must work hard to squeeze out some commodities for export. Materials and supplies departments must do their best to make available raw materials, electricity, and coal, which are needed for the production of exports. Transportation departments must arrange for as many railway wagons and cargo holds as possible. Customs and commerce inspection departments must do a good inspection job, improve efficiency, and raise the standard of services. Tax departments must help foreign trade enterprises speed up export drawback work. Foreign trade departments must strengthen management, increase the volume of business, increase exports, improve the contract compliance rate and accounts settlement rate, and work hard to complete the procurement and export task this year.

#### **New Liaoning Regulations Favor Taiwan Investors**

90OH0189A Beijing GUOJI SHANGBAO in Chinese  
23 Nov 89 p 2

[Text] To expand economic and trade cooperation between the two sides of the strait and encourage Taiwan businessmen to invest and build enterprises in China, the Liaoning provincial government recently has made new regulations for Taiwan investors in the province:

1. Taiwan investors may either select from among a list of economic and technical cooperation projects announced by the Liaoning Foreign Economic Relations and Trade Commission and its municipal counterparts or propose their own projects. In addition, they may purchase small and mid-sized bankrupt enterprises that have been put on the block. Applications by Taiwan investors to set up joint ventures,

contractual joint ventures, and wholly Taiwan-owned enterprises will be handled in accordance with the jurisdictions established by the State Council and the Liaoning provincial government.

2. Export enterprises and technologically advanced enterprises financed by Taiwan investors are entitled to the appropriate preferential treatments as prescribed by the "Regulations of the State Council on the Encouragement of Foreign Investment" and "Regulations of the Liaoning Provincial Government on the Encouragement of Foreign Investment."

3. Fees payable by a Taiwan investor for the use of transferred land shall be determined in accordance with relevant provisions in the "Provisional Regulations of the Liaoning Provincial Government for Implementing the 'Land Management Law of the PRC.'" Land use rights obtained by a Taiwan investor in accordance with the law may be transferred during the duration of the land use agreement.

4. Export enterprises and technologically advanced enterprises funded by Taiwan investors are entitled to a 30-percent reduction in land use fees starting from the year in which such fees are due and based on the current fee schedule. Other production enterprises funded by Taiwan investors may enjoy a 20-percent reduction based on the current fee schedule.

5. When the value of parts and components manufactured by an enterprise funded by Taiwan investors for other Taiwan-funded enterprises that produce whole plants for export makes up 70 percent or more of its total output value, it may receive appropriate preferential tax treatment.

6. Taiwan investors who own 25 percent or more of an enterprise owned by the whole people or collectively owned may enjoy corresponding treatment for Sino-foreign joint ventures.

7. Taiwan investors may ask their relatives and friends who are residents of the mainland to be their agents and sit on enterprise boards of directors. Those who are qualified may be appointed general manager or deputy general manager provided the Taiwan investor involved produces a letter of authorization notarized by a notarization body.

8. In hiring workers, a Taiwan investor may give preference to his relatives on the mainland. Wage standards for mainland workers may be applied when determining the board and lodging and transportation expenses of the resident staff on the Taiwan side.

### **ECONOMIC ZONES**

#### **Foreign Enterprises Expand in Shantou**

90OH0210B Beijing GUOJI SHANGBAO in Chinese  
5 Dec 89 p 1

[Report by reporter Chao Liu (3390 3177): "Foreign-Owned Enterprises Develop Rapidly in Shantou Special Economic Zone; Investment Environment Improves Day by Day"]

[Text] With investment environment improving day by day, foreign-owned enterprises have developed soundly in Shantou Special Economic Zone (SEZ), injecting new energy into the economic development of the SEZ.

In the process of absorbing foreign investment, Shantou SEZ has always paid attention to and never slackened its efforts in attracting foreign investors to establish foreign-owned enterprises in the SEZ to guarantee the simultaneous development of foreign-owned enterprises and joint and cooperative ventures. Since 1988, the quantity and scale of foreign-owned enterprises has surpassed that of joint and cooperative ventures. Between January and October 1989, 46 foreign-owned enterprises were newly approved, and their total investment is \$45.37 million, exceeding the amount of foreign investment in joint and cooperative ventures. Currently the number of foreign-owned enterprises has reached 102 in Shantou SEZ, and their industrial output value accounts for 63.2 percent of the industrial output value of the enterprises of three capital sources in the SEZ.

Through the past few years of development, foreign-owned enterprises in Shantou SEZ have developed several characteristics: 1) Their scale is large, their production capacity is high, and a considerable number of them have become major contributors of industrial output value in the SEZ. The Jinrong Enterprise Co., Ltd., has utilized abundant labor resources in the Chaozhou and Shantou area and adopted a flexible management method to continue to expand its production scale. At present, this company controls over 60 industrial districts and exports 70,000 dozens of clothing monthly. In the first 10 months of 1989, its industrial output value exceeded 40 million yuan, accounting for 10 percent of the industrial output value of the enterprises of three capital sources in the SEZ. 2) They are good at turning the resource advantage of the Chaozhou and Shantou area into commodity advantage to give an impetus to the development of local economy. The Huadabao Ceramics Manufacturing Co., Ltd., which is specialized in the production of the imitation of ancient ceramics, has a stable long-term cooperative relation with a dozen ceramics plants in Fengxi, Chaozhou. Fengxi provides over HK1 million dollars of semifinished white ceramics every month for the company which will then process them in the SEZ and export the finished products to European and U.S. markets. 3) Their input-output cycle is short and their export ratio is great. Before they enter the SEZ, most foreign-owned enterprises already have a certain production and management capacity of their products and their overseas marketing channels are relatively stable. So it takes much less time for foreign-owned enterprises to complete construction and begin operation than it would joint and cooperative ventures. The establishment of the Changtai Enterprise Co., Ltd., was approved in October 1988. Equipment was installed as soon as the construction of its factories was completed in December. It began operation in January 1989. Since March, it has been exporting over \$300,000 worth of shoes every month. The Lingdai Fashion Company also

began operation a month after its establishment was approved. It exports over 30,000 dozens of apparel monthly. 4) They have trained and nurtured a group of managerial personnel and higher-quality staff and workers. All foreign-funded enterprises are export-oriented. In the cut-throat competition of international market, in order to survive and develop, these enterprises have considered reputation and quality as their lifeline and introduced advanced managerial experience from foreign countries and Hong Kong and Taiwan to the special zone. They have combined this experience with the existing situation and using rigorous, scientific methods to run the enterprises, have developed their own distinctive management style. The Jiulong Company had good results from its employment of the "three-in-one system" that combines Hong Kong's management and technology, Japan's employee benefits, and China's ideological political education. Having been subject to rigorous scientific management since its inception, the Huadabao Ceramics Manufacturing Plant completely fulfilled the quality and quantity specifications of its contracts to supply goods. Aside from this, the labor-intensive nature of the majority of foreign investors' wholly foreign-funded enterprises has made it possible for them to absorb a large volume of surplus labor. The Jinrong Company alone has taken on 5,000 people and the Huadabao Company has taken on 1,300.

#### **Xiamen Becomes Hub of Coastal Silk Route**

900110210D Fuzhou FUJIAN RIBAO in Chinese  
5 Nov 89 p 1

[Report by Zheng Jiaku] (6774 1367 8915): "Xiamen Opens up 'Coastal Silk Route' To Transport Products to the Three Continents of Europe, Asia, and North America"]

[Text] A new "coastal silk route" is stretching from the Xiamen Special Economic Zone to all parts of the world. Since they began operation in the second half of 1988, the Xiamen Silk Export and Import Co. and the Xiamen Lehe Silk Co., Ltd., have sold Chinese silk and silk apparel to over 10 countries and areas in Asia, Europe, and North America. By September 1989, they earned respectively nearly \$12 million and \$6 million in foreign exchange.

In September 1989, a Hong Kong businessman sought to buy a batch of printed silk fabric. From the beginning of negotiation to the export of all commodities, the Xiamen Silk Export and Import Co. used only a little over 20 days. Due to the reliability of quality and the prompt delivery of products, this company now enjoys a growing reputation among foreign businessmen and its business is expanding rapidly. As of the end of September 1989, it established business relations with over 50 foreign dealers in the three continents of Asia, Europe, and North America.

While concentrating on expanding the new "coastal silk route," this company has attached great importance to building foreign trade commodity production bases to



increase enterprise's stamina in development. Currently, this company has established in the Huli Industrial District two silk apparel processing and production bases by joining investment with a raw material manufacturer and a foreign investor. One of them is the Xiamen Yihong Real Silk Knitwear Co., Ltd., which can produce 600,000 pairs of underwear a year, has begun to take orders and operate. The other one is the Xiamen Yihong Silk Apparel Co., Ltd., which can produce 600,000 silk clothes a year, is now under intensive preparation and construction and expected to begin operation at the end of 1989.

The Xiamen Lehe Silk Co., Ltd., is a comprehensive silk company that deals with silk manufacturing, dyeing, apparel processing, and export trade. In the course of production, this company exercises strict quality control in accordance with state standards for silk exports and enabled its high-quality rate to exceed 80 percent. Over 95 percent of its products are exported to earn foreign exchange.

#### **Fuzhou To Develop Investment Zone in Minjiang Bay**

900H02104 Beijing GUOJI SHANGBAO in Chinese  
30 Nov 89 p 1

[Report by reporter Chen Zhaohao (7115 0340 6275): "Fuzhou's Taiwan Investment Zone Has Been Filled With Projects, Fuzhou City Is Planning To Develop the Minjiang Bay Investment Zone"]

[Text] The Fuzhou Economic and Technological Development Zone is attracting Taiwan, Hong Kong, and foreign investors with its improved investment environment to come to make investment and build factories in this area. The undeveloped 1.8 square km of Taiwan investment zone in this area has already been filled with investment projects.

During the five years after its founding, the Fuzhou development zone spent a total of 200 million yuan for the construction of infrastructure, thus improving the "tangible" environment of investment. At the same time, it began the practice of examining and approving foreign trade projects within "one building" and provided 24-hour high-quality service. It also reformed internal personnel system on a grand scale, thus forming a better "intangible" investment environment and attracting a large number of overseas investors to come to invest and start businesses in this area. As of the end of October 1989, a total of 90 production and technological projects were approved and their total investment was 700 million yuan. Eighty-five percent or 50 of them were enterprises of three capital sources with a total investment of 600 million yuan. Of this, about 60 percent was made by foreign investors. Fifty enterprises have been completed and gone into operation in the zone. Over one-half of them are enterprises of three capital sources. All of them are doing very well. Between January and October 1989, they produced 317 million yuan in output value, of which 70 percent was made by enterprises of three capital sources. In the past five years, the Fuzhou development zone has produced a total of 900 million yuan in output value, paid 110 million yuan in taxes and profit delivery,

and earned \$83 million in foreign exchange. It has basically established a variety of industrial sectors, including optical, machine-building, electronics, instrument and meter, light, food, textile, building materials, metal materials, fodder industries. It can produce over 150 varieties of high technology products. Many of them have filled the gap in domestic technology.

After the State Council approved the development of 1.8 square km of undeveloped land in the Fuzhou development zone as Taiwan investment zone, in order to increase its appeal, the Taiwan investment zone properly adopted a flexible industrial policy to encourage the development of high-tech and high-efficiency industrial projects that can bring in a large amount of foreign exchange and suit Fuzhou City's industrial policy. In the past few years, a large number of overseas investors were attracted here. According to Fuzhou City's leaders, by the end of October, the Taiwan investment zone was filled with 23 projects, 16 of which are industrial projects with a total investment of nearly 300 million yuan. One of them has already been completed and put into operation and the rest are under intensive preparation and construction. There are also seven infrastructure projects including sewage treatment and container wharf construction. Overseas investors who have come to invest and start businesses here have changed from individuals to groups and organizations. Most of them bring with them their own funds, technology, management, major raw materials, and export channels. Over 90 percent of the projects export all products. Most of them are productive projects, require a large amount of investment, and are expanding from labor-intensive type to capital- and technology-intensive type.

To feed the Taiwanese investment fever, which is still going strong, Fuzhou is now preparing to use the development zone as the center and extend to the lower reaches of Minjiang River in the east, west, and south to gradually form a large area of investment zone in the Minjiang Bay area to attract Taiwanese, overseas Chinese, and foreign investors to finance with their own capital the development of a large area of land to be built into a port-city industrial zone which boasts all trades and professions but is based on industry, ocean transport, and export and import trade.

#### **AGRICULTURE**

##### **Fixed-Price Grain Consumption Drops**

900H01824 Beijing JINGJI RIBAO in Chinese  
4 Nov 89 p 1

[Article by Chai Mao (2693 5399): "Success Scored in Reduction of Fixed-Price Grain Sales"]

[Text] All jurisdictions have scored very great achievements in reducing fixed-price grain sales since 1988. Incomplete statistics from 27 provinces and autonomous regions show a 2.4 billion kilogram reduction in fixed-price grain sales in two years, including a 1.6 billion kilogram reduction in 1988, and a newly disclosed 800 million kilogram reduction in 1989.

Provinces and autonomous regions showing substantial reductions in fixed-price grain sales were Shanxi, Jiangsu, Fujian, Jiangxi, Hunan, Guangxi, Guizhou, Yunnan, and Shaanxi. In 1988, Shanxi reduced fixed-price grain sales by 600 million kilograms, including a reduction of 70 million kilograms of specialty grain [gongzhong liang 1562 4429 9037], 250 million kilograms of grain used for cakes and pastries, 70 million kilograms of grain used in making alcoholic beverages, 40 million kilograms of grain used for nonagricultural livestock feed, and 150 million kilograms of grain used for agricultural population grain rations. Provinces in which newly disclosed reductions in fixed-price grain occurred during 1989 were Hebei, Heilongjiang, Zhejiang, Hunan, and Sichuan. Beginning in July, Hebei Province reduced by 25 percent grain norms for the pastry and beverage industries. This, plus a switch to grain supplied at negotiated prices for orchardmen and fishermen should produce a 135 million kilograms reduction.

Numerous areas resorted to the conservation of grain to assist disaster areas as a means of making reductions. Hunan Province ruled a 1 kilogram per month per person grain reduction for cadres, staff members and workers receiving a fixed grain ration of 14.5 kilograms or more for a 37.5 million kilogram reduction. Beginning in October 1988, a 1 kilogram per month saving to aid disaster areas was applied to the nonagricultural population in cities and towns in the Guangxi-Zhuang Autonomous Region.

#### Yunnan Agricultural Stagnation Tied to Rural Finance

900H0110A Kunming JINGJI WENTI TANSUO  
[INQUIRY INTO ECONOMIC PROBLEMS]  
in Chinese No 9, 20 Sep 89 pp 14-17, 26

[Article by Zhang Dongfu (1728 2767 6534): "Agricultural Predicament and Rural Finance"]

[Text] Over the last decade, Chinese agriculture, once expansive, has stagnated, especially in grain output. As

has been the case nationally, Yunnan's agricultural output rose rectilinearly through 1984 but stagnated thereafter. Nationally, grain output totaled 20.1 billion jin in 1984, a record high, but dropped for four straight years beginning in 1985 and totaled only 18.8 billion jin in 1988, for a per capita average of only 523 jin, becoming a salient drag on Yunnan's economic development. Once again, we realize the significance of the moral of the expressions "without agriculture, there is no stability, and chaos reigns when there is no grain" and "there is no panic when grain is in hand" for our nation of 1.1 billion people.

The causes of the stagnation in agriculture are many. This article will focus examination only on the relationship between this stagnation and rural finance and the role of the latter in helping agriculture escape its predicament.

#### The Relationship Between Rural Stagnation and Rural Finance

As reform has unfolded over the past decade, rural credit has come to comprise an ever greater share of agricultural inputs. Provincially, the ratio of agricultural loans to gross agricultural output value was 6.78 percent in 1980 and rose to 22.3 percent in 1988, and the ratio between agricultural loans and budgetary inputs to agriculture was 1.24:1 in 1980 and 3.5:1 in 1988. The impact of rural credit on agricultural development is growing and has become decisive. Analysis based on relevant data shows this trend in the following respects.

1. The fluctuation in the share of rural loans (including those issued by the Agricultural Bank and by credit cooperatives) relative to all types of loans extended provincially (including those made by all types of banks) has exerted a significant impact on agricultural development. (See the following table.)

Table: Share of Rural Loans Relative to All Types of Loans Extended Provincially (%)

1980	1981	1982	1983	1984	1985	1986	1987	1988
37.9	41.8	43.9	43.9	46.4	41.0	36.8	37.1	41.8

This table reveals several things. First, the share of rural loans relative to all loans rose rectilinearly through 1984, during which period agriculture developed rapidly, and dropped from 1985 onward, when agriculture stagnated. Second, rural loans have been subjected to the greatest cutbacks of all loans during the effort to strengthen financial macroscopic control since 1985, which fact is reflected in the large drops in the share of rural credit in total credit. This is very detrimental to agricultural development. Third, the central bank exerts great influence on the direction and foci of credit flow. Through 1984, the bank favored agriculture, promoted

agricultural development, and laid a foundation conducive to the stable and balanced development of the entire national economy. Thereafter, the bank favored industry and commerce, abetted industrial and commercial overheating, weakened agriculture, and prevented the national economy from developing in a stable and balanced fashion.

2. The fluctuation in the share of agricultural loans relative to total rural loans distributed provincially has exerted a direct impact on the development of agricultural production. (See the following table.)

Table: Share of Agricultural Loans Relative to All Rural Loans Issued (%)

1980	1981	1982	1983	1984	1985	1986	1987	1988
28.6	24.9	25.3	31.8	38.6	33.3	33.7	35.2	31.9

Clearly, the share of agricultural loans relative to rural loans rose through 1984 and declined in 1985 and thereafter, which is consistent with the rise and stagnation pattern displayed by agriculture.

To analyze further, over the past several years the share of direct inputs to agriculture relative to total agricultural loans has been declining. For example, of all agricultural loans issued in Yuxi City, which is relatively developed economically, 41.5 percent was invested in agriculture in 1980 but in 1987 the figure declined to 13 percent. In Jinping County, a backward county, the figures were 69.7 percent in 1980 and 38.9 percent in 1987, a decline.

Naturally, over the past several years the rural economy has been commercializing, diversified farming has developed, township and town enterprises have arisen, and commodity purchases have grown, so corresponding change in the composition of rural credit is in line with the trend in economic development. Nevertheless, we must recognize that the growth in rural industrial and commercial loans has been excessive; that loans to agriculture, especially to grain production, have fallen too far; and that rural credit operations overly favor industrialization and commercialization. These trends, too, are detrimental to agricultural production.

3. Very little credit issued to agriculture has been used to facilitate expanded reproduction, been long term, been used to improve basic agricultural productive conditions, or been developmental. Developmental loans accounted for only 3.15 percent of all agricultural loans at the end of 1988. An important reason behind agricultural stagnation in recent years is that the state, collectives, and peasant households have lacked long-term perspective on agriculture and thus reduced funding for capital construction. Existing farmland irrigation facilities are aging and deteriorating, the ecological environment is degrading, agrotechnical research and dissemination has been inadequate, and since peasant contracting, rooted primarily in household farming, was implemented, we have lacked a mechanism with which to raise and concentrate funding on farmland capital construction. Very few budgetary inputs and planned loans have been directed toward this area, and the amount involved is inadequate to resolve the problem. In contrast, the loans China has received from the World Bank are precisely long-term and developmental in nature. What international banks recognize, Chinese banks do too little of. This fact has contributed to the lack of reserve strength for agricultural development.

4. The decline in the rate of return from agricultural loan inputs adversely affects the development of both agriculture and finance.

Table: Ratio of Agricultural Loans Relative to Gross Agricultural Output Value (%)

1980	1981	1982	1983	1984	1985	1986	1987	1988
6.78	6.11	7.34	13.31	18.25	15.57	14.55	21.54	22.30

Table: Increase in Outstanding Agricultural Loans for Each 100 Yuan Rise in Agricultural Output Value (Yuan)

1981	1982	1983	1984	1985	1986	1987	1988
10.9	15.9	67.3	53.5	30.7	156.4	106.1	46.4

These tables show that the agricultural output value-loan rate has risen considerably. The reasons for this are: first, material inputs have increased in agricultural development, so credit has risen accordingly; and second, the prices of agricultural means of production have risen, as have costs, while farm prices are irrational, so relative returns have fallen. This reveals the predicament of agriculture from yet another angle.

5. Current interest rate policy dampens the enthusiasm of financial departments for supporting agriculture. It is cultivation that, naturally, receives priority in agricultural development. Because the cycle of production in cultivation is long, loan maturities have to be set accordingly. The interest rates on loans covering cultivation production costs are the same as those for one-year fixed

deposits and for bank support loans to credit cooperatives, so if the Agricultural Bank and credit cooperatives use funds derived from these two sources to issue loans for cultivation, they surely will lose money. Yunnan peasants obtain most of their agricultural loans from credit cooperatives, many of which already cannot balance their budgets, and example of which is the Zhao-tong Prefectural Credit Cooperative, which depends on Agricultural Bank support funds for 70 percent of its funding needs. Although the mandatory interest rate is allowed to float, peasants in many areas are very poor, and cultivation yields poor returns, so peasants cannot cope if the rate is allowed to rise. But if the rate does not rise, cooperatives lose money and thus are between a rock and a hard place. This money-losing business naturally affects basic-level banks' and credit cooperatives' ability to fulfill their contract responsibility targets and



subconsciously undermines their enthusiasm for issuing credit to support agriculture. This, too, hinders the development of agricultural production.

The analysis presented above shows that rural finance is closely linked with agricultural production. During the years following the 3d Plenary Session of the 11th Central Committee up until 1984, importance was attached to the fundamental position of agriculture, and policy guiding finance and credit flows favored agriculture and thus played a positive role in stimulating rapid agricultural development. From 1985 onward, the fundamental position of agriculture was overlooked, and financial policy and credit flows favored industry and commerce, thus contributing significantly to agricultural stagnation. We should draw lessons from this experience and give full play to the role of credit cooperatives in promoting the stable, coordinated, and sustained development of agriculture.

#### **The Stable Development of Agriculture and the Role of Rural Finance**

1. Stimulating agricultural production should be ranked as the prime task of rural finance and be made a principal indicator with which we rate rural finance work.

To extricate agriculture from its predicament and to maintain its stable development, we must not play down the role of increased credit inputs and treat them as an expedient but rather continue increasing them as a long-term, fundamental policy for rural development.

As in other productive sectors, expansion of reproduction in agriculture, both intensive and extensive, is predicated on the addition of producer goods and materials. Compared to other sectors, agriculture is unique in that natural and economic reproduction are interwoven therein and that agricultural production requires both inputs of material and human creativity, as well as the action of solar energy. For agriculture to develop, productive conditions must improve, laborers must cultivate assiduously and manage things scientifically, and the weather must be suitable—all three factors are indispensable, and it is inappropriate to overly stress the role of any one factor. For example, even the United States, which enjoys extremely favorable material conditions and a high level of mechanization, suffered an incredible 30-percent drop in grain output due to drought in 1988. Still, material inputs are always a basic prerequisite for the development of agriculture and absolutely must not be overlooked.

Funds are the monetary expression of goods and materials. And increasing inputs of goods and materials requires, in addition to the seeds, manure, and other things supplied by peasants themselves, appropriate increase in fund inputs. The guiding principle of "self-reliance is primary, and state support is subsidiary," which we consistently followed in the past, remains apt today. As agricultural production forces improve, more fund inputs will be required. Besides peasants' own

accumulation and increases in state budgetary inputs, credit support certainly must be increased.

The role and effectiveness in supporting agriculture should be made the number one criterion and objective of evaluations of rural finance department work, the program to run the Agricultural Bank as an enterprise, and evaluations of Agricultural Bank and credit cooperative performance in operational contract responsibility. And rural finance departments must make support of rural development their bounden social duty.

So that credit supports agriculture properly, rural financial cadres all should possess basic knowledge of both finance and agricultural economy and understand and be well versed in agriculture. We should make every effort to build a corps of agricultural experts. Only thus can we meet the needs involved in supporting agriculture.

2. Rural credit operations should implement state policy on industry and distinguish between development and restriction and between key foci and the commonplace.

State industrial policy should form the basis of credit sectoral policy. Without key foci, there can be no credit sectoral policy. Support must be rendered to key foci, but restriction must also be applied. Credit operations must not limit themselves merely to the passive role of responding to the needs associated with change in agricultural composition but, more importantly, take the initiative and promote restructuring.

For several years, Yunnan's agriculture has not been well balanced compositionally. In cultivation, for example, grain has been unpopular, while tobacco has been hot, and the share of credit issued to grain has fallen, while that for tobacco has risen. On the one hand, the two tobaccos (leaf tobacco and cigarettes) has expanded greatly, producing more than half of the government's revenues. On the other hand, grain production has declined, and reliance on grain in shipment has grown, becoming a big burden on the budget. This potentially dangerous state of affairs, which includes both good news and bad, arose out of a convergence of the interests of local party and government organizations, financial agencies, peasants, and relevant departments. For financial agencies, there has also been both good news and bad. The good news is that operations are expanding and results are improving. The bad news is that credit funds are inadequate, operations have reached overload, and difficulties abound. In 1988, cured tobacco output soared, procurement surged to 9.7 million dan, 2-plus billion yuan in credit was issued to buy up cured tobacco, storage ballooned, and funds were tied up, making it difficult to provide the funding needed for purchase of agricultural means of production and field preparation next spring, as well as to follow through on the commitment to accord priority support to the expansion of grain production.

To implement credit sector policy correctly, we must resolve an important question of principle; in other words, correctly handle the relationship between general

and particular interests and the interests of the state as opposed to those of localities and departments. We must proceed from the principle of treating the entire nation as a chessboard and, while upholding the interests of the state and the people, support the development of sectors in which localities enjoy an advantage and truly benefit both the state and the people.

3. Credit support of agriculture must look to both the present and the long term and treat both the symptom and the root cause.

The future looks bleak if we fail to resolve the current lack of reserve strength for agricultural development. Thus agricultural credit should be directed toward supporting simple projects yielding fast returns and the funding needed to cover production costs while stressing support of projects promising long-term impact on agricultural development, of infrastructural and developmental projects, of ecological improvement, of dissemination of agrotechnology, and the like.

Projects that help to strengthen agricultural reserve strength should be differentiated and treated differently. Small, short-term projects where peasants are definitely able to repay should be supported where appropriate. For projects that have definite sources of funding but suffer payment lags because the funding, though committed, is allocated only as the project progresses, may be granted short-term loans to help tide them over. As for long-term projects promising good results and assured repayment, the central bank and the Agricultural Bank should allocate funds year by year and fix the maturity thereof according to the date the project will show earnings.

4. Rural credit should be tailored to suit each locality and treat localities differently.

Agricultural production varies greatly by locality. There are differences in the level of economic development as well as natural, geographical, climatic, crop-type suitability, and even seasonal differences. Yunnan's topography undulates, and the province has a "three dimensional climate and agriculture" and great regional diversity. For example, while most regions harvest their agricultural and sideline crops during the fall, a number of tropical border regions grow much sugar cane and rubber, most of which is harvested during the first half of the year. Thus local agricultural and sideline procurement peaks also vary.

Given these features, in formulating rural credit policy and in guiding rural credit work, we must conscientiously tailor measures to local conditions. Rigid uniformity and monolithically simple approaches contravene the very nature of nature and economy. Here we must make two distinctions. The first is to tailor policy in accordance with localities' level of economic development, ability to accumulate for themselves, and potential for raising their own funds. The second is to establish key foci in accordance with varying natural conditions, crop patterns, seasons, and developmental advantages. Credit

operations play a good role in agricultural development only when they are consistent with actual conditions prevailing in agricultural production and the rural economy.

5. One long-term objective of rural finance is to help villages reduce poverty. Forty-one of Yunnan's 127 counties and cities are poor, and other counties also have a number of poor villages and peasants. Eradication of poverty absolutely cannot be achieved in a single step or easily and will take even longer and be even more difficult in areas suffering harsh natural conditions. Some counties that once reported they had escaped poverty soon became poor again because they failed to set about changing basic agricultural conditions. This proves that we must not lower our guard.

An investigative report by the World Bank Operations Evaluation Department stated: "Eradication of poverty remains an important principle of the World Bank." (FINANCE AND DEVELOPMENT, December 1988 issue.) We socialist state banks should take these words to heart and make this an important principle in our work, too. As long as rural poverty persists, helping villages eradicate poverty should be the bounden duty of rural finance. In fact, as the Agricultural Bank is transformed into an enterprise, immediate "purification" of its operations conflicts with the objective reality of the countryside. Moreover, eradication of rural poverty forms an important economic basis for the effort to develop financial work and improve the benefits produced by credit. Rural finance can truly be highly beneficial only when it is erected on this basis. Naturally, helping villages reduce poverty by no means implies that credit can be treated as relief but adhere to the principles of credit policy. The government should subsidize interest rate shortfalls on loans mandated by policy.

6. Both quality and quantity should be emphasized in rural credit operations.

We must stress economic returns for credit issued to agriculture. Only good returns and rising volume can truly help promote agricultural development. Stressing quantity to the detriment of quality is unacceptable.

There are many reasons why agricultural loans move slower than other types of loans. Agricultural loans involve tens of millions of households, are dispersed, small, require much work, yield little interest profit, and the like. The production cycle of agriculture is long, and agriculture suffers many calamities and is risky. Investment in agricultural infrastructure is long term and is slow to yield returns. This is especially so in the mountainous regions of Yunnan, which comprise 94 percent of the province's total area. Many localities are so scattered and have such poor communications that interest earnings sometimes do not even cover the travel allowance of cadres who have to traverse hill and dale to collect peasant loans. In addition, the prices of agricultural means of production are rising, while those of grain and other produce are low, so the comparative returns of

agriculture are low. And, of course, there are problems with poor loan management.

In many agricultural regions, agricultural returns form the basis for improving returns on agricultural loans. Thus rural finance must support measures that help increase earnings and reduce costs in agriculture and push agriculture on the road to reducing costs, improving the ecological environment, and increasing output and earnings. Of course, price reform must be advanced so as to eliminate the industrial-agricultural price scissors. Meanwhile, we must improve and strengthen management of agricultural loans and accelerate fund turnaround so as to enable our limited funds to be more productive.

7. The Agricultural Bank and credit cooperatives must join hands to support agriculture, and help, benefit, and complement each other.

The Agricultural Bank and credit cooperatives share the direct responsibility of supporting agriculture with credit. Credit cooperative agencies are distributed in every village and are closest to the peasantry. Most of their cadres are locally born and bred and maintain natural ties with peasants, and it is the cooperatives that are most familiar with, best understand, and are closest to the peasantry. Agricultural Bank business offices established in towns and townships normally employ only five or six cadres and lack the resources to process agricultural loans for tens of thousands of peasant households. It is precisely for this reason that credit cooperatives in reality hold the front line in credit support to agriculture and naturally form the main force in processing agricultural loans. Thus to help credit cooperatives develop and strengthen is also to assist agriculture.

Credit cooperative funding capability varies greatly in Yunnan. Most cooperatives in economically advanced regions can balance their budgets, but many cooperatives in average or poor regions lack sufficient funds and require support funding from banks. Indeed, one-fifth of all cooperatives in the province lose several million yuan each year. Cooperatives in poor regions, especially, suffer many inherent problems. To mobilize their enthusiasm for supporting agriculture and to enhance their ability to survive and develop, we should grant them preferences, reduce or waive their deposit reserve requirements, have banks give them lower than normal interest rates for support funds extended to them, and have the People's and Agricultural Banks share the burden of making up the resulting shortfall in interest earnings. This approach will facilitate agricultural development.

8. Credit support of agriculture requires a good external environment and the cooperation and support of relevant quarters.

First, in its macroeconomic regulation and control operations and unified planning of credit and funding, the central bank must grant preferential treatment to, stress, and support, not slight and restrain, agriculture

and treat the Agricultural Bank and credit cooperatives differently from other specialized banks and help them resolve difficulties that crop up in their effort to support agriculture.

Second, government funding of agriculture should be coordinated with agricultural loans, and a division of labor should be established between the two operations in terms of targeting. Budgetary funding should primarily be directed toward long-term infrastructural projects that help bolster agricultural reserve strength, major agricultural research and dissemination, improvement of the ecological environment, and the like. Credit should be directed toward projects yielding fast results and earnings, and most credit should be used to supply the working capital needed to cover agricultural production costs, purchase agricultural means of production, procure agricultural and sideline produce, and the like. At the same time, credit should appropriately be increased for long-term projects. Government funding and agricultural loans should complement and bring out the best in each other.

Third, interest rate subsidies should be provided where appropriate for government loans to support grain and meat production so as to help reduce costs and give peasants incentive to produce and basic-level banks and credit cooperatives incentive to support agriculture. Rather than constantly increasing price subsidies for urban consumption of agricultural and sideline produce, it would be better to increase subsidies for production so as to stimulate development thereof, a move that would be more beneficial over the long run.

Fourth, all types of agricultural support funding should be coordinated. In addition to budgetary funding and credit, relevant rural agencies also provide varying amounts of agricultural support funding and should, in accordance with their specialization, direct their funding toward a rational division of labor and play their proper role so as to promote the comprehensive development of agriculture.

#### High Prices Affect Availability of Farming Essentials

900H0111A Nanchang JIAGE YUEKAN [PRICING MONTHLY] in Chinese No 9, 15 Sep 89 pp 27-29

[Article by Yin Yinong (1438 1942 6593) and Duan Quping (3008 3061 1627): "Several Thoughts About Prices of Agricultural Means of Production in Jiangxi and Related Problems"]

[Text] Stabilization of agricultural means of production prices, and ensuring supplies of the agricultural means of production is both a focus and a difficulty in our work. As a result of the high degree of attention paid by all levels of government in Jiangxi Province, and thanks to the active efforts of production, administration, and management units, by and large, there has been no loss



of control over prices of the agricultural means of production in Jiangxi, price levels remaining generally stable.

Because of a tremendous rise in payments for imports and production costs, and because of policy and management mistakes, prices for some agricultural means of production are rather high, chaos occurring in the market prices of agricultural means of production in some places.

### 1. On Prices

The state decision to monopolize the sale of means of agricultural production such as chemical fertilizer substantially resolved controversies in the price control system. Should restraints be removed from prices of agricultural means of production? Could the methods for general means of industrial production be adopted in a transition from the double track system to market regulation? The regulations pertaining to monopoly sales enabled a general consensus among all concerned on these questions. The regulations lay a policy foundation for halting resales at a profit, and for investigating and dealing with price rise upheavals. In response to requests from the State Council and the provincial government, when monopoly sale of chemical fertilizer was instituted, a price inspection corps was mobilized throughout the province at the same time to carry out a major survey of agricultural means of production prices. This survey is still being carried out, and it is producing substantial results.

Prices of agricultural means of production are generally stable throughout the province in comparison with the same period in 1988. Estimates call for nearly 1.6 billion yuan in retail sales of five categories of agricultural means of production, namely chemical fertilizer, agricultural pesticides, plastic sheeting used in agriculture, electric power used in agriculture, and diesel fuel for agricultural use. Approximately 1.4 billion yuan of this sales volume will be for the first three categories. A net price increase of 74.5 million yuan in the price of the first three categories is forecast during 1989 after the deduction of state increases in state award sales of parity price urea in connection with peasant grain sales to reduce peasants' expenditures. This represents an approximately six-percent price rise. (Were this factor not deducted, the price rise would be 155.28 million yuan in an approximately 11-percent rate of increase). Price changes for the main items are as follows:

1. Electricity used for agricultural production: Approximately .058 yuan per kilowatt hour for no change.

2. Diesel fuel used in agriculture: A parity price and high price weighted average within plan averaging 600 yuan per ton, the parity price being maintained without change.

3. Plastic sheeting used in agriculture: An average price increase of 1,397 yuan per ton in a 27.8 percent increase. This includes a rise in the retail price from 4,830 per ton

to 6,320 yuan per ton, a rise in the price of medium grade plastic from 5,110 yuan per ton to 6,430 yuan per ton, and a rise in the price of plastic mulch from 5,160 yuan per ton to 6,540 yuan per ton.

4. Agricultural pesticides: The effect of price adjustments on total costs is 28.68 million yuan, or approximately 20 percent, including an increase in the ex-factory price of methamidophos from 9,900 yuan to 14,000 yuan in a 41.4-percent increase rate.

5. Urea: The readjusted price affects the total cost by 38.98 million yuan, or 5 percent. This includes the increased supply of 132,000 tons of parity price urea in connection with the three links [san guagou (0005 2171 6869)], the price falling by a total of 80.78 million yuan in a 612 yuan per ton decline. The price of cooperatively imported urea increases 100 yuan per ton, increasing peasant payments by 41.8 million yuan.

6. Ammonium carbonate: Adjustment of the price affects the total cost by 57.27 million yuan, or approximately 20 percent. The actual retail sale price increases from 346 yuan to 415 yuan per ton (the ordering price by counties throughout the province ranging from 343 to 520 yuan per ton), the price increasing by 59 yuan per ton.

7. Phosphate fertilizer: Price adjustment affect the total cost by 12.69 million yuan, or 9.3 percent. The actual retail price rises from 280 to 306 yuan per ton, up 26 yuan per ton.

Among the seven kinds of means of agriculture commodities in the above five categories, there is no change in the price of electric power or diesel fuel used in agriculture. The average price of urea shows a slight decline, and the price of pesticides, agricultural plastic, and chemical fertilizer produced in small chemical fertilizer plants increases appreciably.

### 2. On Commodity Circulation Expenses

Changes in both domestic and foreign market conditions have adversely affected the cost of imported goods, transportation fees, labor service payments, and interest payments, commodity circulation expenses showing substantial rise. Enterprises dealing in the agricultural means of production face very great difficulties. During the first quarter, agricultural means of production companies and numerous enterprises showed losses—the provincial agricultural means of production company experiencing losses of approximately 200,000 yuan. The most prominent problems adversely affecting commodity circulation costs today are a rise in the cost of imports and payment delays.

The province plans to provide foreign exchange for the importation of 200,000 tons of chemical fertilizer in 1989. The first shipment of bulk urea in 1989 carried a C.I.F. [cost, insurance, freight] price of \$156 per ton, 30 percent more than during the same period in 1988. As a result of the calculation and collection at different rates

of customs duties, sales taxes, insurance fees, agent charges, and bank handling fees, by the time it reached inland points in the province the imported urea cost \$1,337 per ton, more than 40 percent more than during the same period in 1988. The importation of agricultural pesticides and raw materials to make agricultural plastics also encountered similar problems. Agricultural means of production international market price rises fueled price rises at the country's ports of entry. At the end of 1988, the quoted port of entry price of urea outside plan was about 1,100 yuan per ton, but recently the price increased to more than 1,200 yuan, putting enormous pressure on efforts to stabilize agricultural means of production prices.

The increase in delayed payments, and the rise in interest on loans has created dual financial pressures on commodity circulation costs. Costs and the shortage of funds competed with each other to form a mutual cause and effect relationship.

The enormous rise in commodity circulation costs is related directly to the issuance of too much currency, and to the substantial increase in the price index for several years in a row. The rise in prices has caused automatic increases in payments for labor, transportation, and wages; and decline in the value of currency has naturally increased the amount of funds used. Even though the banks were able, with great effort, to increase loans to the agricultural means of production sector by more than 100 million yuan in 1988, it has still been very difficult to sustain the volume of purchases of 1988.

### 3. On Production Costs

Because the state conducted a price inversion policy between ex-factory prices and production costs during the 1970's and the earlier part of the 1980's, most of the province's enterprises that produced agricultural means of production usually operated at a loss. As a result of the gradual extension of the system of dividing revenues and expenditures between the central and local governments, and holding each responsible for balancing their own budgets, enterprises individually contracting with the state, it became difficult to continue this policy. Unable to carry on, by 1985 more than half the province's small chemical fertilizer plants closed down, and virtually all agricultural pesticide plants "closed down, halted production, merged, or converted to the production of other things."

Since 1984, the state has gradually delegated price control authority for chemical fertilizer produced in small plants, and for most agricultural pesticides, and the province has gradually readjusted its policies. The general method used today is to formulate the ex-factory price of chemical fertilizer produced in small plants and of agricultural pesticides after examining and verifying production costs, and in accordance with the principle of preserving capital and making a small profit. This has made it generally possible to sustain production, and production has rallied during the past several years.

Jiangxi Province now has 47 chemical fertilizer enterprises, 20 of which produce nitrogenous fertilizer, and 27 of which produce phosphate fertilizer. They have a nearly 2 million ton (standard fertilizer) production capacity, 76 percent of which was used in 1988. They are able to supply only approximately 50 percent of the province's needs. There are more than 10 agricultural pesticide plants in the province, and they too are able to supply somewhat less than 50 percent of the province's needs.

If current production capacity is to be maintained, and all possible done to tap potential and carry out technical transformation to produce more of the materials so urgently needed in agricultural production, it will be necessary to adhere to the principle of preserving capital while making a slight profit in formulating prices. Otherwise, enterprises will halt production or shift to other lines. Production will shrivel, and the resulting losses will be even greater. However, adhering to the pricing principle of preserving capital and making a slight profit requires acknowledgment of the steady rise in production costs. All levels of government in the province adopted very many supportive policies with regard to chemical fertilizer, agricultural pesticide, and agricultural plastic producing enterprises. These policies included state tax exemption of small chemical fertilizer products, and business taxes on agricultural means of production, and the electrical power construction fund used for used to produce chemical fertilizer and farm pesticides. They also included measures in which the province reduces the increase of the electricity cost, a cost that is self-supported by the industry, for chemical fertilizer and farm pesticides. However, a single region, a single sector, a single industry is powerless against very many of the factors in the macroeconomic climate that jointly fuel rises in costs. The shortages of coal, electric power, and transportation during the first quarter of 1989 caused a slide in production and a huge rise in costs. All the province's chemical fertilizer industries came close to operating at a deficit. Eight of the 20 nitrogenous fertilizer plants lost money, seven of them small nitrogenous fertilizer plants. All of the small ammonium carbonate fertilizer plants ran a deficit totaling 788,400 yuan after balancing losses against profits. Small ammonium carbonate fertilizer production costs averaged 327 yuan per ton when the ex-factory price that the province set averaged less than 310 yuan per ton. Hardships in phosphate fertilizer plants were also substantial.

### 4. On Prices of Urea Outside Plan Exceeding Overall Price Levels

Before the end of 1988, the provincial government conducted several studies, adopting seven balanced control measures as follows: A running balance of 7 million yuan accumulated over the years when the province replaced prefectures and cities in importing urea was disbursed to all prefectures and cities to balance sale prices; and 3.6 million yuan was disbursed from funds collected from the regulation of grain shipments outside

the province. This disbursement was for the purpose of holding down the sale price of urea not included in plan. For the time being, this held the overall market retail sale price of urea throughout the province within 1,180 yuan per ton. It was estimated at that time that 470,000 tons of urea would be sold at the market sale price.

Subsequent provincial agricultural means of production company reports showed a substantial change in the situation:

1. The foreign exchange that prefectures and cities were to provide for the importation of 100,000 [tons] of urea could not be found. This made it difficult to control the price to be paid for foreign exchange at the 6.23 yuan per dollar that the province set.
2. It was originally planned to purchase 200,000 tons of urea from elsewhere, and the import price was originally set fairly low. Now, however, with a rise in the market price, the urea could not be purchased at the originally intended price.
3. A total of 5,750 tons of medium price urea used for balancing was shipped out for use in arranging award sales related to cotton procurement.
4. So far in 1989, the province has produced nearly 10,000 tons less urea than during the same period in 1988.

Following further provincial government study, it was acknowledged that only 370,000 tons could be provided at 1,180 yuan per ton. The province itself provided the foreign exchange to import 100,000 of these 370,000 tons. On the basis of the bulk shipped C.I.F. price for the first shipment of \$150 per ton, the province paid 1,337 yuan per ton to import the urea using medium price foreign exchange (6.23 yuan renminbi per dollar). The province had 3,950 tons of left over parity price urea, and 20,250 tons of urea purchased with medium price foreign exchange [i.e. urea imported at 1,337 yuan per ton]. This urea was allocated to the province's prefectures and cities at a less-than-cost price of 1,180 yuan per ton. This is to say that the province directly allocated 124,200 tons of urea at a less-than-cost price of 1,180 yuan. In order to meet needs, the province, prefectures, and counties all had to work actively to ensure that 370,000 tons of uniformly priced urea would reach markets for sale. After accomplishing this task, and after all jurisdictions had done what they could, it was decided that those jurisdictions that could not maintain the aggregate price level that the province set could follow the principle of "paying close attention to costs when importing and selling, neither losing nor making money, each county setting its own prices to be maintained for one year," the local market sale price being set following local price department approval.

### Trends in Continued Rural Development, Urbanization

900H0063A Chongqing GAIGE [REFORM] in Chinese No 5, 20 Sep 89 pp 119-124

[Article by Lin Ling (2651 0407) and Wang Xinqian (3769 2450 0467): "Choices in Rural Development and Urbanization"]

[Text] Surveying the history of modernization in developed nations in the world, we see that economic development usually means the transformation of a traditional agricultural society into a modern industrial society. This transformation manifests itself not only in the emergence and expansion of the industrial sector of the socioeconomic structure, but also in the modernization of agriculture and the urbanization of the rural population. That is, the overwhelming majority of the agricultural population was transformed into a nonagricultural population as erstwhile farmers converged on towns, both established and new, from the surrounding villages. In this process, the development of agriculture and progress in the countryside were critical to industrialization and urbanization. In a profound analysis of this historical phenomenon, Marx noted incisively, "The number of workers engaged in processing industries and totally removed from agriculture (called 'free hands' by Si Tu Ya Te [2448 0956 0068 3676]) is determined by the quantity of agricultural output in excess of the need of the agricultural laborers." This Marxist thesis has been borne out by the history of modernization in Western developed nations. (*Collected Works of Marx and Engels*, Volume 1, Chapter 26, p 22)

However, the industrialization and urbanization of the rural population in developed nations took place in a state of anarchy from the start. In the wake of capitalist industrialization, bankrupt peasants poured into cities in droves, where modern buildings of all shapes and sizes contrasted sharply with the omnipresent slums. The distressing thing is that almost all developing nations today are going down the same urbanization road. The spontaneous migration of the rural population into cities is ever on the rise. The tragic scenes of the slum there are similar to those a couple of centuries back. The difference is that modern industry has created a much worse pollution problem. In view of this, modernizing developing nations must steer clear of the old road and map out a new path suited to their own realities.

### I

As soon as the PRC was founded, the party and government devoted themselves to China's industrialization and the modernization of agriculture and worked hard to discover a road of modernization, Chinese style. In the 30 years before the 3d Plenary Session of the 11th CPC Central Committee, however, we remained bogged down in traditional theories and models far removed from Chinese reality.



We learned a particularly profound lesson from the tortuous route we took in rural development. Basically we ignored the self-sufficient and semi-self-sufficient nature of the Chinese rural economy, its lack of specialization, and the fact that even today simple tools of manual labor thousands of years old are still in use, and blindly pursued the maximization of the size and collective nature of rural economic units and the collectivization of labor and management. Agriculture was managed through command planning and administrative methods. Commodity production and commodity exchange were rejected. Undue emphasis was put on "taking grain as the key link." Peasants were prohibited from engaging in secondary and tertiary industries. The economic structure and economic mission of the countryside were simplified as the provision of agricultural byproducts for the city and large industries. This kind of economic system, production and management method, and division of labor determined that peasants had little enthusiasm for production, that they lived in poverty, and that rural economic development stagnated. Add runaway population growth and errors in urban theory and policy, and the countryside was basically shut out of urbanization and modernization. By the late 1970's, the fragility of Chinese agriculture had become a grave threat to the entire national economy and social and political stability. Change had become historically inevitable. This is the background against which the 3d Plenary Session of the 11th CPC Central Committee adjusted rural policy in a historically significant way.

In the surging tide of reform, it was the peasants of Anhui and Sichuan who first bestirred themselves and jettisoned the people's commune, initiating the practice of "fixing farm output quotas for each household." This method swept across the nation with an irresistible force and was warmly supported by the party and government. In a short three years, the people's commune was replaced by the household responsibility system of linking remuneration to output, which is better in both form and substance. Like a river that bursts its dike, the peasants' enthusiasm for production and their tremendous production potential, hitherto suppressed, burst forth with a vengeance. The Chinese countryside, long dormant, seethed with excitement.

A second profoundly significant change is that the self-sufficient and semi-self-sufficient rural economy has evolved into a commodity economy, which had previously been denounced, and began its march toward modernization. This was a leap from fantasy to reality in both theory and understanding. Both the urban and rural markets for agricultural byproducts were opened up. The prices of a majority of agricultural byproducts were deregulated while those of grain, cotton, oil-bearing crops, and other state-procured crops were increased. The law of value was used to regulate agricultural production and adjust the product mix. Peasants were allowed to peddle their produce from region to region. Retail and wholesale markets for agricultural byproducts blanket the nation. As many as 13.80 million peasants

are engaged in commercial activities between urban and rural areas. All this shows that the Chinese countryside is rapidly moving from its self-sufficient and semi-self-sufficient economy to a commodity economy.

Third, agriculture has outgrown its function of simply supplying cities and large industries with agricultural byproducts and is developing in an all-round way involving agriculture, forestry, animal husbandry, sideline production, and fishery so that the primary sector can make greater progress. At the same time, by adopting the policy of the five wheels (that is, township, village, group, household, joint household) turning at once, the secondary and tertiary sectors have been able to develop in the countryside. The result is a rural economic structure that includes the primary, secondary, and tertiary sectors. In the process the Chinese countryside has become not only a base for supplying cities and large industries with agricultural byproducts, but also a base for supplying urban and rural construction, people's living, and foreign trade with a variety of nonagricultural commodities and labor services.

Practicing the household system of linking remuneration to output within the framework of the collective ownership of land. Developing a rural commodity economy under state planned guidance. Creating a rural economic structure that includes the primary, secondary, and tertiary sectors. This basically sums up the road of rural development in the decade of reform.

The decade of reform in the Chinese countryside has discovered not only a new method of rural development, but also a path toward urbanization that is Chinese in style.

China is a vast country with a population of 1.1 billion, of whom a high 79.3 percent live in the countryside. Arable land per capita is merely 0.087 hectare, or 1.12 hectares counting only rural population. Given the extremely high concentration of rural population in a small expanse of arable land, only about half of the rural labor force of 400 million people is required to satisfy the needs of agricultural production at the moment, even with the backward technology we have today. If agriculture is modernized, even more rural workers will become redundant. Where can the existing nearly 200 million surplus workers go? In the long run, how can we achieve the urbanization of the rural population? If the experience of developed nations in the West is any guide, we should let peasants move toward cities freely. But both history and the reality in developing nations have proved that this approach will result in a wave of rural migrants that will exceed the ability of existing cities to absorb the current labor force and overburden the urban infrastructure, resulting in massive unemployment and the proliferation of slums and causing the city a series of problems affecting employment, housing, transportation, the environment, and law and order. Also, the excessive loss of rural population will devitalize and depress agriculture. The present reality in China is that it has a huge urban population as well as an enormous rural population. The

urban labor force expands by 3 million each year. These newcomers need jobs. Moreover, as enterprises go through optimal labor combination and technological transformation, at least 30 million workers will be displaced and need to be reallocated. At a time when a major expansion of China's urban economy is out of the question, with cities already struggling to find jobs for newcomers to the urban work force and redundant workers, it is almost impossible for them to absorb a sizable army of surplus rural workers. In China, therefore, the removal of the surplus rural labor force from agriculture, industrialization, and urbanization can only be accomplished through a dual economic structure. On the one hand, we rely on investments by the state, enterprises, and society and absorb foreign capital to develop modern industry and the tertiary industry. On the other hand, we rely on the peasants themselves to develop small-scale industry dominated by handicrafts and traditional technology, the building industry, transportation, commerce, services, and other tertiary industries. The continued development of urban industries and the tertiary industry can absorb the surplus urban labor force and part of the rural labor force. The development of township and town enterprises, on the other hand, can absorb the surplus rural labor force. Primary activities like agriculture, forestry, animal husbandry, and fishery, and township and town enterprises, which can be found in both secondary and tertiary industries, tend to congregate. The inevitable outcome is the creation in the vast countryside of tens of thousands of small towns. And as township and town enterprises and these small towns develop and are technically transformed, and as modern large industries and modern transportation facilities are distributed around small towns, such towns may evolve into modern small cities, mid-sized cities, and large cities as well as small towns that are far removed from the traditional township and boast a pristine environment, fresh air, and an urban life style. In this sense, the coexistence and development of the dual economic structure will play a decisive role in China's socialist industrialization and urbanization.

And this is precisely what we have been doing in the decade of reform. According to statistics, between 1979 and 1987, township and town enterprises have been growing at the average annual rate of 28.6 percent, achieving a gross output value of 472.3 billion yuan in 1987, 20.5 percent of the gross value of social output and 50.3 percent of the gross value of rural social output. Of the 472.3 billion yuan, industrial output value amounted to 324.3 billion yuan, 23.5 percent of the nation's total industrial output value and equivalent to the nation's gross output value in 1975. Township and town enterprises employ a total of 87.76 million workers, 22.5 percent of the total rural labor force, almost half of the rural surplus labor force, and 10 million more than the work force in all enterprises owned by the whole people. The development of township and town enterprises has increased peasant earnings substantially. In 1987, peasant incomes derived from nonagricultural activities amounted to 28.2 percent of all net incomes from

production. In the 10 years between 1978 and 1987, township and town enterprises paid 83 billion yuan in taxes to the state, increasing at an average annual rate of 17 percent. In the same period, they paid 72.8 billion yuan in after-tax profits to aid agriculture, including 15 billion yuan directly spent on agricultural production. Exports by township and town enterprises earned as much as 5 billion yuan in foreign exchange in 1987.

The spectacular growth of township and town enterprises has fueled the rise and boom of small towns. Since the secondary and tertiary industries jointly utilize energy, transportation, information, markets, and other social public facilities, and because of the need for specialized cooperation between neighboring enterprises, township and town enterprises inevitably congregate in towns. The concentration of township and town enterprises, in turn, has promoted the development of the infrastructure and the cultural, educational, and public health undertakings of these towns. Statistically, between 1980 and 1987, organized towns in China increased from 2,600 to 10,200, almost a threefold increase in seven years. The population in such towns also rose from 58 million to 243 million, a 3.2-fold increase, accounting for a rising share of the nation's total population, from 5.9 percent to 22.4 percent. In addition, there are 58,000 unorganized rural towns, which also form part of the network of small rural towns. Because they are easily accessible and strategically located and boast rapidly developing secondary and tertiary industries or because of the dispersal of modern large industries among them, between 1978 and 1987, 190 small townships (primarily county towns) were upgraded with state approval as county-level cities and municipalities directly administered by provinces.

Township and town enterprises small towns the urbanization of the rural population. This progression proceeds side by side with the development of modern industry and large and mid-sized cities. Through the theory and practice of a decade of reform, we have clearly established the city, particularly the modern large city, as the center of national economic life, political life, and the people's spiritual life, as well as the main driving force of progress, thereby correcting errors in urban economic theory and policy. Comprehensive urban reform was launched. A management system characterized by regional separatism was abolished. The urban economy was transformed into a commodity economy. The city was opened up to the rest of the nation as well as to the world. Urban infrastructural development and the construction of the tertiary sector were intensified. The city is put to use as a center of production, circulation, transportation, finance, information, science and technology, education, and the production and circulation of spiritual products. The ability of the urban economy to influence the surrounding areas, its attraction, and its comprehensive service capabilities have been much enhanced. One after another, economic regions are beginning to take shape, open and network-like, supported by large- and medium-sized cities and

connected by small towns. It is in places like Chang Jiang Delta, Zhu Jiang delta, and central Liaoning Province, where modern cities and new rural small towns are concentrated, that urbanization with Chinese characteristics distinct from that in the West is most apparent. Like all things whose growth has seen ups and downs, the development and urbanization of the Chinese countryside has been a bumpy road. Right now we are faced with a host of problems that need to be resolved.

## II

It is entirely correct that we abolished the people's commune and established the household responsibility system of linking remuneration to output within the framework of the collective ownership of land. It is undeniable, however, that 10 years after reform, peasants no longer exhibit the kind of potential seen in the early days of the contract responsibility system. Nor are they as enthusiastic as before to practice intensive cultivation and increase inputs in land. In certain economically developed areas, there has even appeared a tendency to slight agriculture and quit farming without giving up the land. Various reform schemes have been put forward to solve these problems. As far as the land system is concerned, some people propose privatization or a permanent leasing system (land is owned collectively but is leased permanently to peasants for their use and can also be inherited) to motivate peasants to increase inputs in land. As for scale management, regional "dual-level management" (the collective, which owns land, and the household in management contracting being the two decisionmaking and management levels) has again become a hot conversation topic. It is considered the most feasible organizational format that will achieve the most suitable degree of land centralization at the present stage.

Our studies show that in areas where the nonagricultural sector of the economy is underdeveloped, an unstable land system is indeed a major reason why peasants are unwilling to increase agricultural inputs. But in areas where the nonagricultural sector is developed, peasants are unwilling to increase agricultural inputs and actually practice extensive cultivation, not really because they do not own the land or cannot use the land on a long-term basis, but because the profits of nonagricultural operations exceed those of agriculture, which induces the peasants to make nonagricultural activities their main occupation and reduce farming to a sideline occupation. Under these circumstances, land privatization or a permanent land leasing system would only perpetuate the existing extremely small scale of land management and hamper the introduction of management on a suitable scale. It will not make the peasants more enthusiastic about increasing agricultural inputs in a fundamental way. The same holds true for the development prospects of areas where nonagricultural economic activities are undeveloped: with microscale management—cultivated land per household being a mere 0.47 hectares—and given the higher profits of nonagricultural activities, the trend of agriculture becoming a sideline occupation is

inevitable. We can therefore conclude that in the long-term interests of Chinese agricultural development, the current household responsibility system of linking remuneration to output by and large should be retained. At the same time, the land contract period should be lengthened as appropriate. Neither private ownership of land nor the permanent land leasing system is suitable at the moment. Specifically, in plains and low-lying areas where the nonagricultural sector of the economy is highly developed, because most rural workers have quit agriculture, only peasants whose main occupation is agriculture are allowed to enjoy land-use rights. As for peasants whose main occupation is nonagricultural, they must give up land contracting. This would help concentrate land in the hands of peasant households who are adept farmers and ultimately bring about the family farm which will manage the land on an appropriate scale. Alternatively, we can form agricultural production and management companies to recontract the land contracted by a number of households. The purpose is to concentrate land in the hands of modern company-like agricultural enterprises that operate on a suitable scale. In plains and low-lying areas where the nonagricultural sector of the economy is still undeveloped, the land contract period should be lengthened and peasants should be encouraged to increase inputs in land. At the same time, the nonagricultural sector of the economy should be developed vigorously, agricultural interests should be reconciled properly with nonagricultural interests, and the surplus labor force should be moved out of agriculture gradually. The goal is the family farm and modern company-like agricultural enterprises. In mountainous and hilly areas naturally equipped for large-scale management, we can introduce family-long-term land leasing and encourage peasants to engage in other economic activities part-time so as to support agricultural production with nonagricultural undertakings. In some areas, a dual-level management system has created, which means creating an agricultural cooperative on top of the household responsibility system of linking remuneration to output. This system should be handled with great care. The agricultural cooperative can only provide a variety of social services for the peasant household. It must not rob the peasant household of its power to carry out production and management in an independent manner.

In our push for the commodity economy in the countryside, we apply the law of value and law of supply and demand to regulate agricultural production. For instance, we have raised the procurement prices of agricultural products several times and regulated those of other agricultural byproducts in order to reduce the price differences between industrial and agricultural products. By significantly enhancing peasant sensitivity to the market and his adaptability to the law of value, these reforms have played an indispensable role in the development of agricultural production. However, following every round of price adjustments, price parities between industrial and agricultural products again widened. Agricultural products, especially grain, cotton,



oil-bearing crops, and sugar crops, returned to the bottom of the price totem pole time and again. In addition, after the nonagricultural economy in the countryside developed, it is usually more profitable than agriculture and the price scissors between industrial and agricultural products have again widened, which necessarily dampens the enthusiasm of peasants to grow such vital crops as grain and cotton. As a result, the output of these crops has stagnated and even declined. How to get out of this impasse? One naturally thinks of raising the prices of the crops, notably grain and cotton, and even deregulating them. The advantage of deregulation is that price parities between industrial and agricultural products may become a kind of dynamic regulation, motivating peasants to grow cotton and grain and contributing to the formation of market mechanisms in the area of agriculture. The disadvantage of price deregulation is that it causes the prices of agricultural byproducts and industrial products made of agricultural products, including processed food products, to soar. And when these prices go up, the burden on the Ministry of Finance, which has to dole out food subsidies to urban residents, already a severe financial drain, will become even heavier. These are the most serious problems that China is facing now and will continue to face in the future.

How to solve them? The solution, in the final analysis, is the modernization of agriculture, which depends on three things: first, policies; second, science and technology; and third, inputs. Policies include a successor policy to the household responsibility system of linking remuneration to output, a price policy on grain and cotton, a policy to vigorously promote the development of the rural commodity economy, and a policy to further develop the nonagricultural economy in the countryside. Once policies are made, we need to increase inputs. In a certain sense, science and technology are also inputs. When it comes to increasing inputs, we must take a three-pronged approach: Inputs should come from three parties—the state, the community, and the peasants themselves. State inputs are absolutely indispensable, whether now or in the future. This is because agriculture must be backed up by large-scale farmland capital construction, irrigation projects, environmental projects, and the production of agricultural capital goods. For 30 years after the PRC was founded, agricultural inputs were a national priority. Since 1981, however, the assumption has been that effective reform policies alone would bring about the take-off of agriculture. Consequently, investments in agricultural capital construction have been reduced sharply. In 1987, such investments made up just 3.1 percent of total capital construction investments by the state, down from 10.5 percent during the Fifth 5-Year Plan. Between 1981 and 1987, average annual investments in agricultural capital construction amounted to 3.57 billion yuan, a 27.4-percent decline from 4.92 billion yuan during the Fifth 5-Year Plan. Owing to the decline in inputs and the disrepair or destruction of existing installations, agriculture has lost much of its ability to resist disasters. Between 1985 and

1987, the area of drought-stricken farmland increased each year by an average 66.4 percent compared to 1984, while disaster areas increased 79.8 percent on the average. Macro regulation and control policies in the area of agriculture over the past few years have also had their share of mistakes. In 1984, grain output hit a new level of 400 billion kilograms. Because there were not enough barns to store the grain, a buyers' market appeared. In its unrealistic optimism, the government not only failed to procure large quantities of grain to protect peasants from depressed grain prices, but actually rescinded the policy of increasing by 50 percent the price to peasants for any grain in excess of the quota. Moreover, it dumped tens of billions of kilograms of grain on the market, precipitating a sharp drop in county market grain prices and undermining the enthusiasm of the peasants to grow grain. Practice shows that both market mechanisms and government inputs are indispensable to agricultural development. Nor are the two interchangeable. Considering the fact that grain is one of those commodities which are in tight supply and are irreplaceable, its prices should be kept at a fairly high level constantly to encourage an increase in supply and curb consumption. Appropriate food subsidies by the government should be laid down as a long-term strategic policy.

### III

We have discovered a way to gradually bring about the urbanization of the rural population through the dual economic structure. But many hurdles still have to be overcome if this road is to be passable. First, as the main vehicle for the transfer of the surplus rural labor force, township and town enterprises are restrained by many objective factors in their rate and scale of growth. For instance, when increases in grain output cannot meet the demand of the transfer of the surplus rural labor force, township and town enterprises will not be able to develop, part-time farming and self-sufficiency in grain cannot be done away with, and the urbanization of the rural population cannot be achieved. When the economy becomes overheated and when competition with modern large industries for raw materials, energy, and transportation intensifies, township and town enterprises will certainly bear the brunt of the burden if the government decides to put brakes on the economy. The result may well be the return to agriculture of the surplus rural labor force who quit farming earlier. The economic adjustment begun in the last quarter of 1988 will reduce the expansion rate of township and town enterprises, which have been growing at the rate of 30 percent in recent years, to 15 percent. Tens of millions of workers who have left agriculture earlier may be forced to return to the countryside. This kind of drastic reversal suggests that we cannot be as optimistic about the transfer of the surplus rural labor force as in the past. Second, our original idea of "local assimilation" envisioned the surplus rural worker quitting farming but not leaving the village. That idea has not proved totally workable. As the coastal economy and urban economy developed rapidly,

urban-rural exchange has become unprecedentedly busy and the earnings gap between the coast and the interior, and between the city and the countryside widened, setting up a massive migration of tens of millions of surplus rural workers to modern cities and the coastal region, which put the transportation system and the existing cities under immense strain. Third, with township and town industries developing side by side with modern large industries in the absence of the necessary unified planning and organic specialized coordination, duplication in production and projects is a serious problem. Township and town industries and county-level industry, which mostly use agricultural products as their raw materials, enjoy an edge in their competition with large industries for raw materials and energy, thanks to level upon level of finance contracting and the support of an excessively biased policy. Consequently, modern large industries find themselves in dire straits. Fourth, like large- and medium-sized cities, small towns find themselves in the midst of double track development. They have yet to act conscientiously to plan the distribution of productive forces and transportation and communication facilities and form a network of towns supported by an urban center. Fifth, the backward facilities and technology of township and town industry and the relocation of polluting urban enterprises in the countryside have polluted the rural environment. All this has prompted us to rethink the way to improve and develop the urbanization of the countryside.

The system of the municipality leading the county, which was implemented during the reform decade, has proved highly enlightening. Under the old system, the city and its surrounding county towns and villages belonged to a patchwork of fragmented administrative jurisdictions and each went its own way economically with no coordination among them. The municipality-leading-the-county system put an end to this kind of separatism and opened the way for integrated urban-rural development, including integrated urban-rural circulation so that gradually the city and the countryside will each be a commodity supply base and commodity exchange market for the other. Integrated urban-rural development also means the development of an integrated urban-rural transportation system. Such a system will form a network radiating from the city to link up the surrounding county towns, market towns, and the vast countryside. It means the integrated distribution of urban and rural industries, giving birth to a regional industrial system characterized by division of labor between the urban and rural areas and cooperation among large, medium-sized, and small enterprises. With such a system, the dual economic structure can develop in a coordinated way. In addition, integrated urban-rural development means the integration of the core city with its satellite towns. Small and medium-sized cities, satellite cities, and small towns can all be the economic center of their respective region, forming a network of towns linked to one another organically. Finally, it means the development of a single spiritual civilization. Through a

variety of tools of mass communication, urban civilization is disseminated promptly to the countryside to help the latter shed its ignorance and backwardness, raise the cultural standard of peasants, and promote the modernization of the rural way of life within a relatively short period of time.

The 21st century is just around the corner. There have been all kinds of conjectures regarding the development of China's countryside and the urbanization of its rural population in the coming century. Optimistic projections suggest that by 2050 the countryside will have basically been modernized and town population will account for 70 to 80 percent of the nation's total population; that is, urbanization of the rural population will largely be accomplished. In the more cautious scenario, modernization of the Chinese countryside and the urbanization of the rural population are seen as long-drawn-out processes. By 2050, the countryside will be semi-modernized at best. It would be quite an accomplishment if only 50 percent of the rural population is modernized. Because of China's huge population and limited amount of arable land, an urbanization rate of 70 to 80 percent is well nigh impossible. As noted above, the modernization and urbanization of the countryside is dependent on many factors. Since there are numerous variables, it is difficult to make predictions. We believe, however, that our rural development is on the right track. We must work hard to accomplish it.

#### Reasons, Remedies for Nonstaple Food Price Rises

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[Article by Song Li (1345 4539): "Reasons and Remedies for Urban Nonstaple Food Price Rises"]

[Text] In recent years, urban nonstaple food market prices have continued to rise and remain high, occasioning general concern and a strong reaction on the part of the masses of staff members and workers. This article attempts to analyze the reasons for the above-stated price fluctuations from the standpoint of the economic structure, and to seek effective and workable plans for solution.

#### Analysis of Reasons

##### 1. Basic Pattern of Relations Between Cities and the Country and Between Agriculture and Industry

China is currently still in the preliminary stage of socialism in which modern large-scale production coexists with traditional small-scale production, and in which a commodity economy co-exists with a natural economy. Despite more than 30 years of efforts in building agriculture, it has still not entirely left the traditional stage. This stands in contrast to the huge modern urban industry that has been built through a long period of arduous pioneering efforts on a large scale. The entire

society and economy exhibits a dual structure. Modern industrial cities are founded on a weak traditional and semitrade agricultural, and an overloaded agriculture supports huge modern industrial cities. The economic characteristics of this dual structure fundamentally determines the characteristics of the production and supply of, as well as the consumption and demand for, agricultural products, namely traditional small scale production and modern large scale demand.

## 2. Characteristics of Traditional Agricultural Production

One of the characteristics of traditional agricultural production is high cost, low output, a low input-output rate, and little elasticity in production. Natural resources also restrict expansion of the scale of production. This characteristic is not only markedly manifested in the farming industry, but also operates conspicuously in the breeding industry, extremely limiting the production of nonstaple foods, particularly meat and eggs. China has a large population that requires a large proportion of grain for human consumption. The amount of grain available for livestock feed is limited, thus limiting livestock and poultry production. The cyclical fluctuations in grain production give rise to cyclical fluctuations in the production of nonstaple foods.

A second characteristic of traditional agricultural production is the production of nonstaple foods as a sideline done on a small scale. This production is ancillary and supplementary. It lacks an independent organization of production and is in a subsidiary position. Traditional agriculture is a natural economy of self-sufficiency in which the goal of production is to obtain use value to satisfy the needs of daily life and reproduction. Grain production holds the dominant position, and nonstaple food production is in a secondary position. The sideline nature of nonstaple food production determines that production will be on a small scale. In addition, antiquated production equipment and backward production techniques make for small nonstaple food output, and the possibility of increasing production is also small.

A third characteristic of traditional agriculture is the undiversified nature of production units, and the sameness of production. All peasant households' organize production in basically identical ways; the technical level and production efficiency are about the same; costs and supply prices are generally the same; and they react virtually in step to market price changes. In addition, investment in nonstaple food production is slight, the percentage of investment in fixed assets being especially small. Peasant households can very easily enter or withdraw from the market. This is an outgrowth of the natural economy. It is in keeping with the closed self-sufficiency economy, and it clashes with the needs of a commodity economy. Once commodity production begins, inevitably a situation of rising and falling together and large scale ups and downs occurs, creating cyclical fluctuations. Changes in price cause fluctuations in supply, and fluctuations in supply magnify price fluctuations. The cyclical fluctuations in nonstaple food

production, and the cyclical fluctuations in grain production mutually affect each other. The combination of the two fluctuations make the fluctuations in the supply of nonstaple foods bigger and longer lasting.

## 3. Supply and Prices

Since reform of the rural economic system, China's agriculture has developed rapidly, the power of the tremendous market propelling traditional agriculture's advance into the forefront of modern agriculture, agricultural production becoming a mixture of product and commodity production. The emphasis of the dual structure has gradually tilted in the direction of modern production to form new agricultural characteristics in which traditional modes of production have given way to modern methods. Guided by the commodity economy, productivity rates have increased substantially, and output levels have seen increased growth; however, the rise in efficiency has been somewhat limited. Once the food and clothing problems of the broad masses of the farflung peasant households were solved, no longer was only income in the form of physical goods sought, but rather the emphasis was on a combination of physical goods income and currency income. Because they were able to make timely comparisons of benefits obtainable from the production of nonstaple foods, make choices, and readjust production or shift funds, peasant households began to notice and pay serious attention to market signals; they became very sensitive to price changes, and production fluctuated extremely easily. To an ever increasing extent, prices affected the production and supply of nonstaple foods. Feedback generated, in turn, on prices. This forms the basic background to the situation in urban nonstaple food markets.

Modern industrial cities have a large population, an advanced way of life, and a high level of consumption. Their demand for nonstaple foods is great. The in-depth development of the food processing industry has also added to the enormous demand for production and consumption of nonstaple foods. The combination of traditional and semitrade supply and modern demand was bound to result in high prices, and also the likelihood of a rise in prices was substantial.

In a traditional planned economic system, plan prices play a dominant role in maintaining "stable supply" at a low level; however, a gap always exists between supply and demand. Once price restraints are loosened, the enormous pent up demand means that prices will rise and supplies increase.

## 4. Lessons Learned From Practice

The reforms of recent years removed restraints on the prices of most agricultural products, beginning in the circulation field. Although this removal of price restraints realized some goals, its limitations were very quickly revealed. This is to say that although commodity production founded on small scale production can increase output to a certain extent, it does so at a high price, nor can stability be assured. Genuine solution to



the problem requires a return to the production field from the circulation field to carry out changes in industry that bring about the modernization of agriculture, using modern commodity production to satisfy the tremendous demand for nonstaple foods in modern cities.

#### A Study of Remedies

##### *1. Shift in Emphasis From Alleviating the Symptoms To Curing the Cause*

There are two basic requirements for solving the nonstaple agricultural products problem. One is a steady supply, and the other is relatively low prices. The simultaneous realization of both goals is the only way that the nonstaple food problem can be genuinely solved. The situation today is either high prices and relatively abundant supply at the same time, or low prices and inadequate supply at the same time. These two situations alternate in a cycle. When people are dissatisfied about high prices, remedies such as setting maximum price limits are put into effect resulting in a decline in supply. When there is less meat, eggs, dairy products, and vegetables on the dining table, the people's dissatisfaction shifts from prices to supply. Then "supply of chemical fertilizer at the parity price," "subsidies," and such measures to increase supply make their appearance, and production expands until there is a relative glut. Then prices fall, production dries up, and prices rise once again, the contradiction reappearing.

A review of events since the 1984 removal of price restrictions on agricultural products shows that a vicious cycle of alternating "peaks and valleys," or "difficulty selling and difficulty buying" has constantly dogged us. Even though knowledgeable people long ago pointed the way out, "studies" of remedies continue to vacillate in indecision, a situation of "no clean break and a continued mess" recurring. Old methods in a new guise have been restudied and applied time after time, but the problem remains unsolved. The measures that most places have adopted are usually effective for only a short time and do not help fundamentally solve the long-term problem. Moreover, most are benefit-evoking in nature, the benefits bought at the price of subsidies on supply at parity prices. They serve as blood transfusions rather than to nurture the creation of new blood. Thus, they can only push the problem into the future. Furthermore, the price paid becomes higher and higher over time, so much so that the treasury cannot bear it, thereby piling one difficulty on top of another for reform.

For this reason, we must focus on a change in production modes, and bring forth a body of associated measures for the building within a short period of time of a new production and supply system. Such a conception is not only necessary under present conditions, but also possible.

A. By comparison with industrial production and grain and cotton production, nonstaple food production is

basically disassociated from the traditional administrative system. It is not bound by the old ownership and planning systems.

B. Enterprise reform is currently in the stage of improving the economic environment and restructuring the economic order in which no substantial movement will occur in the near future. Objectively, this permits a temporarily concentration of energies on carrying out reform of nonstaple food production.

C. "Market basket" projects are basically an important part of improving the economic environment and restructuring the economic order, requiring only that temporary, emergency measures be changed to simultaneously taken short-, medium-, and long-term measures to change to a regular track. Technical requirements are not very high; a lot of time is not required; and not too much energy is tied up either. Results can be obtained in not too long a time.

##### *2. Building Modern Production Enterprises, and Developing "Small Community and Large-Scale" Specialized Bases To Form a Multilevel, Diversified Production and Supply System*

Today, nonstaple food production is mostly a family sideline occupation. Peasant family sideline occupation efficiency is low, and the scale is small. This inevitably leads to high costs and small outputs that show up in the marketplace in high prices and small supply. Changing this situation depends on an improvement in production efficiency and increasing the scale of production. Doing this requires that four changes be made in production factors and their mode of organization. The first is to change sideline production into specialized production. The second is to change individual production into enterprise production. The third is to change from small scale to large scale production, and the fourth is to change from nonintensive production to intensive operations. The foregoing changes can be used to build modern specialized production enterprises or production bases having economies of scale. Modern specialized production is highly efficient. It can increase output and lower costs, thereby increasing supply and lowering prices. The key to this transformation is new ideas, both new organizational ideas and new technical ideas. New organizational ideas require the building of new forms of enterprise organization. There can be no regression to "collective" or "state-run" production systems. Stock share system enterprises that meet the needs of a modern commodity economy must be built, putting a system in place in a single step. New technical ideas require that newly built enterprises be rooted in the application of modern science and technology, and they possess a mechanism for introducing new technical ideas borne of new technical achievements. Once the four changes and two new ideas have been instituted to build specialized production enterprises or bases, steady supply at low prices can be realized.

A multilevel, diversified production system includes the following:

A. Modern meat, egg, dairy product, and vegetable production enterprises are the key to and the highest level of the production system. By modern enterprises is meant not just modern production facilities and a modern technical level, but also modernization of the economy's operating system. Modern enterprises should not only produce meat, eggs, dairy products, and vegetables themselves, but also should radiate out to other levels, using methods such as partnerships to provide other levels with superior seeds, livestock feeds, and technical guidance. This level, with its high efficiency and low costs, would not be much affected by changes in market prices. They could not result in a "withdrawal" from production. This is because fairly steady supply is the key and the foundation for realizing stable supply when prices are low. Under the present conditions of limiting factors of all kinds, the number of such enterprises could not be too numerous; however, they positively should not be nonexistent; otherwise no intermediate level could really be shaped and steady supply could not be realized. The chicken farms established through the use of Chinese and foreign joint ventures in Chengdu and elsewhere are successful models that all jurisdictions might do well to pattern themselves after.

B. The building of "small-community, large-scale" specialized production phases is the intermediate level and the main production level in the production system. The basic idea here is for certain places having requisite conditions to build areas specializing in the production of vegetables, hogs, chickens, fish, and cattle in which family businesses are the basic units, developing households specializing in vegetable growing, hog raising, chicken raising, and fish rearing. A number of small-scale specialized household groups would form a large scale production group for the shaping of village and commune specialized bases. These bases would rely on specialized enterprises for backstopping, enterprises providing them with superior seeds, livestock feed, and technical services. The technical level and the production efficiency of specialized bases would be somewhat lower than for specialized enterprises, and they would react somewhat more sensitively than the latter to prices. When prices changed, the bases would react before the enterprises. However, since they are the main force and the intermediate level in supply, price changes would not suddenly reach the point where receipts and expenditures offset each other. Generally, there would only be an adjustment of output rather than "withdrawal" from production, and relative stability. The building of such bases would be relatively inexpensive and easy to do. The exploratory work done in Wuhan and elsewhere attests to this point.

C. Peasant household family sideline production is the lowest level and the outer edge of the system, or what is termed the "periphery." It is characterized by small investment, and extreme ease of entry and withdrawal. The reaction of most of these producers to changes in

market prices is not to readjust their output, but rather to enter or withdraw from the market, making it most unstable and extremely prone to fluctuations. They happen to assume an auxiliary role and serve a supplementary regulatory function.

In a multilevel production system, specialized enterprises are the nucleus and a guiding force; specialized bases are an intermediate level and the dominant force; and peasant household family sideline occupations are a peripheral and supplementary part. Objectively, these three levels must coexist at the same time, operate in coordination, and none of them can be deficient. Supply from specialized enterprises is most steadily followed by supply from specialized bases. Supply from peasant household family sideline occupations is least steady and extremely prone to fluctuations. However, peasant household family sideline occupations are not a mainstay in production, so the effect of these fluctuations on market supply will not be too great. Thus, supply can be maintained basically steady, major ups and downs avoided.

### *3. Setting About Establishing a Nonstaple Food Price Equalization Fund*

Successful experiences abroad show that even under modern production conditions, a price equalization fund remains necessary. A price equalization fund functions to regulate supply and hold down prices. When supplies are insufficient and prices rise, they provide consumers some subsidies. During oversupply when prices fall, such a fund provides producers some subsidies. Guangdong Province, and Ningbo and Jinzhou cities have experimented with a price regulation fund system. All jurisdictions should study the preliminary experiences they provide.

Establishment of a price equalization fund includes the following:

#### *A. Source of the Fund*

1) Government disbursements. When first founded, the government has to allocate an amount of dedicated funds. Once the fund begins to function normally, money can be obtained through other channels. 2) Revenue derived from fines imposed for violations of price discipline; 3) Income obtained from special surcharges on high quality luxury consumer goods, the state collecting a higher sales tax on high quality luxury consumer goods from abroad as a means of holding down consumption of such goods that may not be produced in China because of China's national economic weakness. Currently, sales taxes are not levied on any commodities in China, except for a trial special consumption tax on color televisions. Consideration should be given to the additional collection of special surcharges to be collected by industrial units for use in funding a price equalization fund.

#### *B. Fund Operation*

1) Price subsidies. Designating price stabilization zones in which between 70 and 80 percent of price differences for consumers would be subsidized when market prices

become higher than the upper price limit. When prices are lower than the lower price limit, producers would receive a subsidy of between 80 and 90 percent of the price difference. 2) Cargo commodities [tuntu shangpin 0691 0683 0794 0756]. When prices of cargo commodities fall below a set price limit, the fund should be used to buy a suitable amount of commodities for storage in order to halt too great a fall. When the equivalent price [deng jiage 4583 0116 2706] rallies to becoming higher than the set price limit, the commodities can be resold in order to prevent prices from soaring too high. 3) Outbound commodities. When market prices of outbound commodities are higher than the set price, the fund may be used to buy a suitable amount of commodities from elsewhere to be put on the market in order to bring down prices. When prices are lower than the set price limit, the fund may be used to assemble a suitable amount of commodities for sale elsewhere in order to prevent too great a drop in prices from setting off a new round of shortage of supply. 4) Issuance of low interest loans for the building of production bases.

#### C. Organization and Management

Planning and price units should form a foundation to be responsible for the management and operation of the fund. Its main duties would be: 1) Market forecasting for the purpose of providing information; 2) drawing up production and marketing plans; 3) raising of funds for the fund and issuance of subsidies and loans; 4) market activities.

#### 4. Establishment of a Nonstaple Food Futures Market

If more long-range actions are to be considered, the establishment of nonstaple food futures markets should be explored in places having requisite conditions.

Generally speaking, requirements for the formation of futures markets are fairly high. The experiences of other countries show only between 20 and 30 commodities for which futures markets can be established, an overwhelming majority of them agricultural products. Where conditions permit, we can establish futures markets for nonstaple foods such as meat and eggs. Mutually coordinated with price equalization funds, such markets would better help stabilize food supply and steady market prices.

#### 5. Support to the Production of Agricultural Means of Production

The agricultural means of production are in short supply and their prices are too high at the present time. This results in overly high nonstaple food production costs, and it hurls both the development of production and the stabilization of prices. To increase the production of nonstaple foods, either costs have to be lowered or returns increased. Between costs and returns, costs are always smaller than returns. Thus, it makes more economic sense to work on bring down costs than on increasing returns. On the cost side, prices of the agricultural means of production can be lowered. On

the returns side, efforts at increase are limited by the goal of stabilizing prices. Since cannot be raised, the only feasible way to increase returns is through subsidies. Between the two, a lowering of agricultural means of production prices is the most feasible method.

A look at the present agricultural means of production situation shows a limit to production capacity. When costs rise, it is difficult to keep prices low. Thus, support for production of the agricultural means of production is urgently required. Two alternative schemes are offered for doing this.

#### A. Gradual Change From Subsidization of Consumption to Subsidization of the Production of Agricultural Means of Production

In the chain that extends from production to consumption, production of the agricultural means of production is at the top, production of nonstaple foods is in the middle, and consumption is at the bottom. As the production process deepens and value gradually increases, the bottom becomes larger than the middle, and the middle becomes larger than the top. In terms of identical ultimate prices, the expenditure needed to subsidize consumption is greatest, the expenditure needed to subsidize nonstaple food production (middle) is next, and subsidization of the agricultural means of production (top) requires the least. Furthermore, subsidization of consumption is in the nature of a welfare payment. It is an expenditure for a nonproductive thing requiring an "investment" several times. Moreover, the "investment" produces no benefits; it is like pouring "investment" down a rathole. Subsidization of nonstaple food production is in the category of an expenditure for production. As an investment in the real sense, benefits from the investment are substantial. A relatively small amount of investment can win results far greater than from subsidization of consumption. However, under today's conditions in which individual production predominates, when nonstaple food production is directly subsidized, peasant households may use the funds for other purposes; thus, the subsidies will not play the intended role. Subsidization of the production of the agricultural means of production provides greater benefits than subsidization of the production of nonstaple foods. The investment is more economical, and since enterprises produce the agricultural means of production, there is a smaller likelihood of the subsidy being diverted to other purposes. The subsidies can play their intended role. Clearly subsidization of the production of the agricultural means of production is the most effective way to subsidize nonstaple foods. Therefore, payment of nonstaple food subsidies should be gradually changed to payment of funds to support production of the agricultural means of production in order to help agricultural means of production producing enterprises expand the scale of their production, and replace their equipment, thereby setting the stage for increasing supply and lowering costs.



### B. Reduction or Remission of the Payment of Taxes by Agricultural Means of Production Enterprises

When this plan is implemented, nonstaple food subsidies may be made a part of the price equalization fund.

### Tobacco Growers React to Low Prices, Destroy Crops

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1 Nov 89 p 2

[Article by Yan Kalin (7051 0595 2651): "The Destruction of Tobacco Analyzed"]

[Text] Tobacco growers in a few areas have been destroying their crops in the past few months. According to reports, tens of thousands of mu of tobacco in Hunan have been destroyed, causing millions of yuan in direct economic losses. Similar incidents have happened in well-established tobacco-producing areas like Yiyuan in Shandong.

The destruction of tobacco by tobacco growers tells us many things, most notably the haphazardness of the development of the rural commodity economy. We can see that because of the disregard for planned guidance over the past few years, the ability of the state to regulate and control the market has declined gradually, magnifying the effects of the fluctuations of the prices of agricultural byproducts on agricultural production. These effects not only mean losses for the peasants, but also cast a shadow over production development. In the "tobacco war" two years ago, some regions and tobacco departments procured by over-pricing and over-grading. Tobacco prices soared and growers earned handsome profits. As a result, tobacco production everywhere grew by leaps and bounds. Areas planted with flue-cured tobacco expanded out of control last year and again this year. However, in the wake of changes in the market supply-demand relations, tobacco prices dropped, a likely consequence of which is a sudden decline in tobacco production.

Growing tobacco is different from growing grain. Fresh and tender tobacco leaves must be toasted, a complicated process, before they are ready for sale to tobacco factories or procurement stations. Tobacco growers in Yiyuan County in Shandong calculated the costs of producing 1 kilogram of dry tobacco to be 1.7 yuan, but the average sale price was only 0.9 yuan per kilogram. Given these numbers, they figured they would be better off destroying the fresh tender leaves than selling them. Since fresh tobacco leaves have no consumption value, tobacco production is riskier than producing other agricultural byproducts. This is one distinction.

But there is one similarity. In deciding what to produce and how much, peasants often take the existing market prices as their guide. Market prices, in turn, change constantly as supply-demand relations change. Official prices too are then adjusted accordingly. It is impossible for the individual grower to accurately predict the

overall market trend. Hence this problem: Nobody can guarantee the price that tobacco grown today will command. Today's output may not meet tomorrow's demand. Herein lies the haphazardness and riskiness inherent in commodity production. This haphazardness is not confined to tobacco cultivation but exists also in the production of other agricultural products. In recent years, the prices and output volume of grain, cotton, oil-bearing crops, hemp, tea, meat, poultry, eggs, vegetables, wool, and rabbit fur have all gone up and down many times, objectively wasting enormous human, material, and financial resources.

What we are practicing today is a combination of economic planning and market regulation. Haphazard development without planning is highly wasteful. But if we do away with market regulation, the economy will stagnate. So it seems that for some time to come, production activities including agricultural production will inevitably be influenced and constrained by such factors as market supply-and-demand and prices. Risks resulting from price fluctuations are inherent in a situation like this. However, we must never let market factors guide agricultural production completely, leading to haphazard development with its dire consequences. We must look for specific ways to combine planned guidance and planned regulation with the market organically and make this an important part of rural work at the moment.

Meanwhile, we should also try out in practice a form of exchange that would help improve state regulation and control of the market and market guidance of peasants: futures trading in agricultural byproducts.

Today commodity exchange has developed into two forms: spot trading and futures trading. In spot trading, transactions involve merchandise in hand. Futures trading, on the other hand, involves commodities that will be available on the market only at a certain point in the future. Futures trading avoids or reduces the risks inherent in price fluctuations and safeguards the interests of peasants. As far as the producer is concerned, the basic characteristic of futures trading is that at the beginning of the production process, for instance, after he has sown the seeds, the producer sells on the futures market a specified quantity of dry tobacco to be produced in the future at a price negotiated between him and the buyer. The producer commits himself to delivering the product in the quantity and at the price agreed upon on time. If, at the time of delivery, the prices on the spot market exceed the previously negotiated price, then the buyer makes a bigger profit. If the opposite obtains, that is, if prices on the spot market drop below the previously negotiated price, then the producer stands to reap a windfall. For the producer, provided he sells his product on the futures market at a price higher than the costs of production, he is assured of a profit and his interests are protected whether prices will go up or down in the future. As for the buyer, provided he buys the futures at a suitable price, his costs are stabilized and his interests are protected however prices change in the future.

Although futures trading has a long history in China, modern futures trading began overseas and, after over a century of development, has formed an organized, managed, and global market. In China it is clearly compatible with the national conditions and tremendously significant to establish a futures market for a number of agricultural products. Reportedly certain government agencies not long ago have prepared a plan for a pilot project on futures trading, to which the central government leaders attach a good deal of importance. Qualified localities and sectors would do well to explore this idea.

### Statistics on Food, Cereal Exports

HK2812113989 Beijing CEI Database in English  
0904 GMT 28 Dec 89

[Text] Beijing (CEI)—Following is a list showing the volume of China's exports of cereals, oils and foodstuffs in November 1989, according to primary statistics released by the General Administration of Customs.

Item	Unit	Nov	Jan-Nov
Pig	head	247,521	2,715,476
Poultry	in 10,000	387	4,076
Beef	ton	2,212	53,388
Pork	ton	3,366	83,733

Item	Unit	Nov	Jan-Nov
	in 1,000	53,359	564,181
Aquatic	ton	30,079	242,294
Fish	ton	3,555	40,012
Prawn	ton	10,309	45,680
Cereals	ton	339,180	5,703,246
Rice	ton	18,683	283,677
Soybean	ton	96,094	1,091,309
Pulses	ton	48,947	364,086
Maize	ton	159,290	3,004,761
Vegetables	ton	87,017	736,216
Fruit	ton	48,280	205,153
Orange	ton	13,188	40,078
Apple	ton	18,292	63,950
Sugar	ton	69,810	403,044
Canned food	ton	37,011	490,945
Pork	ton	9,351	79,543
Vegetables	ton	21,237	293,376
Fruits	ton	7,989	62,259
Others	ton	2,834	55,767
Vegetable oil	ton	305	66,497
Peanut	ton	9,585	348,009

### Modern Intellectuals Accused of 'Slavish Mentality'

90X00102A Hong Kong CHENG MING  
[CONTENDING] in Chinese No 143 Sep 89 pp 88-90

[Article by Liu Xiaobo (0491 2556 3134): "Modern Chinese Intellectuals and Politics—Part V"; Part I published in JPRS-CAR-89-047; Part II in JPRS-CAR-89-088; Part III in JPRS-CAR-89-107; Part IV in JPRS-CAR-89-114]

[Text] To consolidate his hard-won power, the new dictator in 1976 had no choice but to turn around and do exactly the opposite: assume a more enlightened posture and rehabilitate himself and others who had been persecuted. Thus, it became fashionable to rehabilitate intellectuals victimized during the anti-rightist struggle and the Cultural Revolution. Society at large seemingly woke up to the importance of intellectuals. Slogans like "respect knowledge" and "honor intellectuals" appeared to strike root in the hearts of the people. Intellectuals, too, seemed to have emerged from the abyss of suffering to become pillars of society. A "diploma fever" swept the nation. You need a diploma for everything. In selecting cadres, in particular, the bureaucracy pays special attention to diplomas. Once again, knowledge became the passport to officialdom; the imperial exam system seems to have returned. In this situation, some intellectuals join the bureaucracy and become politicians. Others reclaim their social status as famous philosophers, writers, and scholars, and come to enjoy a privileged position in organizations large and small. All intellectuals who have benefited tangibly begin to speak from the standpoint of those who wield power. Those denied such special honors continue to vent their dissatisfaction. On the whole social esteem for intellectuals has indeed reached a post-1949 high. Intellectuals let applause and adulation go to their heads. Showered with bouquets, how could they reflect soberly on their own destiny? They failed to ponder in earnest the relationship between Chinese intellectuals and autocracy, let alone realize their own slavish personality: weak, ignorant, and submissive to power. On the contrary, they gripe on the one hand, and glorify themselves on the other, even as they sing the praise of the great savior. From "Goldbach's Conjecture," the first reportage with intellectuals as its subject, which created a sensation in society, to "When You Become Middle-Aged," which cries out against the injustices dealt intellectuals, and the series of works on the right by Zhang Xianliang [1728 6343 0081], just about every piece of work on intellectuals praises its subject. The contrast between the grim and difficult environment in which the intellectual finds himself and his noble spirit only serves to highlight his loyalty to the motherland and the people. During the Cultural Revolution, the images of the worker, peasant, and soldier became stereotypical. Now the same has happened to that of the intellectual, the only difference is that, during the Cultural Revolution, the worker, peasant, and soldier had positive images and the negative image was reserved for intellectuals. In the new

period, the intellectual enjoys a positive image. In the literature of the new period, we again come across a kind of worship and glorification of man that is unique to China. Here let me repeat some of my opinions published earlier:

We can say that the Chinese intellectual's self-assessment still has not broken free from the classic mold unchanged for thousands of years: the Qu Yuan model or Da Yu model. A paragon of selflessness, Da Yu forgave the man who slayed his father and passed by his own house three times without entering. Qu Yuan was repeatedly forsaken by his emperor and fatherland and suffered untold hardships but never wavered in his loyalty to the emperor and his love for the country. In their concern for the long-suffering people, they typified the personality of the Chinese intellectual through the ages. Then there are Pan Gu, creator of the universe; Nu Guo, who mended the heaven; Hou Yi, shooter of the Sun; and Shen Nong, inventor of agriculture. Confucius and Mencius eulogized the ideal man as follows: "He drinks water, eats simple meals, and lives in a mean alley. But he feels content. What a worthy person!" "He eats little and survives on water. His arm serves as a pillow. Still he is happy. To him fame and fortune are but floating clouds." "He is not corrupted by wealth and fame, nor changed by poverty and lowliness, nor subdued by power and force." Lao Zi and Zhuang Zi extolled the man-god thus: "He is immune to the heat of Da Za burning or the cold of He Han. Flash thunder that crumbles a mountain and a quick wind that whips up a sea leave him unflustered." What a moving portrait of a man! All this prompts me to ask: Given the surfeit of great personalities among Chinese intellectuals through the ages, why is it that intellectuals in the end always remained the "prostitutes" and "tools" of emperors? Why have intellectuals always tried their best to undermine one another instead of forming a cohesive force? Why do intellectuals succumb to the temptation of material gain? Why do they expect a shrine to their chastity when they live like a whore?

Once he achieves the ideal state mentioned above, a human being is no longer a human being. He becomes a god. This god is not the God in Western religion, but a human being deified, idolized, and idealized, something unique to China. The result is an ideal man, a model for emulation by everyone in society. In the West, God is nonsecular. God is superhuman. However great, however noble, man cannot sit beside God and be his equal. God and man, divinity and kingship, heaven and earth, religion and security... They are mutually exclusive after all. Between God and man is an unbridgeable gulf. As a member of God's chosen people, a person must abandon secular life. Before God everyone is equal, whether he is a king or a poor man. There are no distinctions in status. This is a God that makes us feel our limitations, smallness, meanness, and sinfulness, that takes man closer to absolute value transcending the secular life.

In China, however, everything is secular. All the highest values are determined by man's inner world. Confucius



said, "Benevolence comes from inside." Zhuang Zi said, "A contented person does not have to look outside of himself." According to Zen Buddhism, "From heart to heart. Human conscience is the way of the Buddha." Religious authority and monarchical authority, religion and ethics and politics, and god and man are totally compatible. This is not so much "internal transcending" as "self-sufficiency." Moreover, since the Yin and Zhou dynasties, religion in China has always been as rigidly stratified as the temporal political system. Worship services are strictly hierarchical. The Son of Heaven can offer sacrifices to heaven and earth, mountains, rivers, and all the ancestral temples. Princes and dukes could offer sacrifices to the mountain temple; senior officials, monarchical temples; scholars, ancestors; and the common people, even lower. Unlike the church in the West, where everybody can enter to pray and confess, the Temple of Heaven in Beijing was accessible only to members of the imperial family, the only people who could worship heaven at the temple. Chinese do not worship one god, but numerous gods. Virtuous emperors, sages, and ancestors are all gods, so are representatives of a moral peasantry. Every society and every stratum has its own god. Yao, Shun, Wen, Wu, the Duke of Zhou were gods. Confucius, Lao Zi, Sakyamuni were gods. Qu Yuan, Hai Rui, and the Duke of Bao were gods. Guan Yu, Zhang Fei, Yue Fei were gods. Chaste women and dutiful sons and grandsons were gods. The countless campaigns after 1949 to emulate the actions of heroes is this kind of personality-god worship pushed to its extreme. Wang Jie [3769 2638], Xiang Xiuli [0686 4423 7787], Lei Feng [7191 6912], Ouyang Hai [2962 7122 3189] were gods. Daqing, Dacai, and Xiaojin-zhuang were gods. Pacesetters who studied Mao Zedong's works are gods. Five good soldiers and three good students are gods. As large as an industry, as small as a unit, as large as a province, as small as a natural village, all put up all kinds of active elements as models. At the top of these gods, large and small, stood a towering, omnipotent, supreme god—Mao Zedong. Unfortunately this god was too evil. Not only did he fail to save his worshippers from suffering, but he led them to an abyss of misery worse than hell.

After the Cultural Revolution, such worship of personality-gods continued. Weren't the lavish praises heaped on Zhou Enlai reminiscent of the glorification of Mao Zedong? Then there are the "new Long March shock worker," "the nation's top 10 industrialists," "honor list of intellectuals," "Laoshan Hero Report Team," Zhang Haide [1728 3189 6611], Zhu Baru [2612 0130 0320], so on and so forth. The examples are legion. Before long Shenzhen showed every sign of replacing Dazhai and Daqing as a model of modernization for the nation. Every once in a while, the rulers hold up a model for emulation by the people, building an imaginary temple with applause and bouquets where the people can pay homage. Not only do rulers do this, but the common people too spontaneously follow suit.

Since I don't know when, there appeared the designation "four great young teachers" and countless new intellectual

stars have emerged. "Qigong fever" has confused and befuddled the countrymen. People like Yan Xin [0917 2450] and Zhang Baosheng [1728 1405 0524] became omnipotent and all-knowing masters. A person becomes a national celebrity overnight thanks to just one article. Idol-making has turned us into a nation teeming with famous people. I bet it would be quite good if only 3 percent of China's famous people live up to their billing. In fact, the bulk of them are mostly exaggerated. Many intellectual celebrities were able to stand up to the oppression of the rulers, but knuckled under their favors. In the same vein, few have managed to remain clear-headed and self-critical when showered with bouquets and praises. Whatever their path to fame (official patronage or official criticism), the intellectuals' worst pitfall is applause and flowers from society. In China, popular glorification and self-glorification have turned many a celebrity into a corpse even as they achieve fame. Social eminence is the grave for the creativity of a Chinese intellectual. Not a few Chinese scholars in Hong Kong, Taiwan, and overseas have grown complacent because the mainland has been praising them to the sky. Many Sinologists have appointed themselves Chinese experts on the strength of the flattery of intellectuals on the mainland. Buttered up by the mainland, these foreigners have in turn tried to ingratiate themselves with the mainland intellectual community and cried out against the injustice of not awarding the Nobel Prize to a Chinese writer. China is indeed a huge dyeing vat. Few are those who put themselves in it without being tainted with a bad smell. And the best dye in the vat is precisely the crudest flattery and glorification. Decades ago Lu Xun [7627 6598] realized the omnipotence of "killing by flattery." Surprisingly, decades after his death, he is still lauded to the skies by the entire Chinese nation, from the great leader to the common people. In the process, he has become another cultural standard-bearer after Confucius. Confucius dominated the history of ancient Chinese philosophy. Now Lu Xun does the same in the history of modern Chinese philosophy. Even his casual acquaintances manage to secure a place in history thanks to Lu Xun's illustrious name.

Even more frightening is that China's ancient dictatorial and monolithic tradition in ideas and philosophy is clearly related to these personality-gods, large and small. We should say that these mythical personalities were created by dictators in accordance with their political needs and moral standards. Essentially, they are the dehumanization of man. Through the dual tactics of autocracy and the policy of keeping the people ignorant, they turned individual, unique, and diversified human beings into generalized, abstract, and fossilized stereotypes. An absolute ethical value was then imposed on the stereotypes by autocratic power and the people were forced to accept this value unconditionally. That way, human individuality disappeared, leaving an absolutely perfect average value, which is "0." In other words, moral models are the tools of the ruler. In ancient Chinese prose, they are the "instruments of education, influence, and benevolent rule." In the modern Chinese language, they are the tools of political and ideological work. The image of Zhang Haide singing and talking in the Great Hall of the People is that of a political

microphone from which all personal life experiences are completely drained. Even more ridiculous are the likes of Li Yanjie [2621 3601 0267] and Qu Xiao [2575 0876]. Their performance on television does not even reach the standard of a microphone. Rather they resemble a prostitute soliciting clients. No, not even that. A whore does not hide the fact that she is selling her body for money. She is honest and open about that. In contrast, the spiritual prostitute who sells his soul in return for power and profit talks expansively and righteously about the cause of national salvation and the morality of cultivating one's moral character, managing state affairs, and achieving peace on earth. How they wish each and every one of their pores would ooze with the spirit of righteousness and a willingness to die for a just cause. Fortunately, those Chinese who have gone through the trial of the Cultural Revolution and reform, particularly the younger generation, are no longer as pious as their counterparts who emulated Lei Feng [7191 6912]. They either question those who dispense sincere words and earnest wishes and sigh with relief or tease them in a tongue-in-cheek manner, often to the profound grief of Bo Le, who never tires of teaching others.

If Chinese intellectuals through the ages were really as pure, noble, and rebellious as the books say, then Chinese history would have to be rewritten. If all intellectuals were like Hong Yulan [4767 3768 5695], a character created by Cong Weixi [0654 4850 3556], the Cultural Revolution would not have happened. In my opinion, nobody who studies Chinese intellectuals can find any true materials in books. All he can do is speculate, based on the opposite of what the books say, turning eulogies in verse into the ugly personalities of the real world.

In short, the awakening of the Chinese must begin with each individual, particularly the rebirth of intellectuals.

#### **Integrating Intellectuals With the Working Class and Modern Obscurantism**

As mentioned above, Chinese intellectuals have been deprived of freedom since ancient times, but never more so than today. Autocracy is a god that Chinese intellectuals must pay homage to. They must live and die for it, be loyal to it, and be enslaved by it. They must be vulgarized by it. Moreover, ever since Marxism-Leninism found its way into China, Chinese intellectuals, already lacking an individual personality, were fettered with a new set of shackles. Chinese intellectuals, who had no free soul to begin with, now have a new god—the ignorant, benighted masses. Beginning in the Yanan period in the 1940's, Mao Zedong put forward a way whereby intellectuals could transform themselves. By integrating themselves with workers, peasants, and the masses, they were supposed to transform their bourgeois world outlook into a proletarian one. The idea of being loyal to and serving the people, being loyal to the party, and serving politics reduced the individuality of the Chinese

intellectual, which had already been shriveling by the day, to a kind of insensate animal existence. Intellectuals should listen to every voice in society, study the expression on every face. But one voice they never listen to is that of knowledge. One thing they never study is their own soul. Chinese intellectuals are the self-appointed sons of the party as well as the self-appointed sons of the people. In front of these two fathers, Chinese intellectuals must do their best to be loyal and filially pious. Through flattery, self-deprecation, and the glorification of ignorance, they fulfill their filial duty as sons. Open any work written after 1949. Almost all of them are studded with such expressions as "the people are the driving force of history" and "the people are the master of the nation." The only hope for intellectuals is to integrate themselves with workers and peasants. Kneeling at the feet of the two towering giants—workers and peasants, and Mao Zedong—are intellectuals who spend every minute kowtowing with fear and trepidation. One wrong move, one misstatement, and they will be out of luck and may even be stripped of the privilege they have earned by showing filial obedience to Mao Zedong and serving the people: a secure place as slave. The sorrow of losing this place is the modern Chinese intellectual's greatest sorrow. If that happens, what would be the use of knowledge and culture? From the native number-one scholar to the foreign-trained Ph.D., in what ways do they differ from the illiterate Mrs. Xianglin in their ignorance and slavishness? For several decades, Chinese intellectuals have exercised every charm they are capable of. Aren't they just like Mrs. Xianglin, who lost a family fortune by offering herself to beheaded [juan men kan 2196 7024 0974]. They resemble her even more in their inability to enter heaven even after they had offered themselves. Two entirely different curses are written on the "door to hell" and the "door to heaven" facing the intellectuals: "Come in. This door is always open!" and "Come in. Eternal hopelessness."

Under these circumstances, modern Chinese intellectuals have lost their ancient sages' aloofness from politics and materialism—"if you don't work, you cannot distinguish the five cereals"; their tyrannical airs—"mental workers rule others. Physical workers are ruled by others," "the people can be ordered around, but cannot be enlightened," and their conceitedness—"only the highly intelligent and the foolish cannot be moved," not to mention the Western intellectual's mental independence, personality independence, and such freedoms as freedom of speech, freedom of the press, and freedom of association. The modern view on knowledge—"the more learned you are, the more reactionary you become"—has pushed the intellectual from the top of the four-tiered classification (in ancient China, people were classified as "scholars, peasants, workers, and merchants") to the bottom. During the Cultural Revolution they were denounced as the "stinky ninth grade." This is the result of integrating the modern intellectual with workers and peasants.

(To be continued.)

### Proposal for Increased Border Defense

HK2812070089 Beijing JIEFANGJUN BAO in Chinese  
8 Dec 89 p 3

[Article by Wang Ke (3769 0344): "Some Thoughts on Strengthening Frontier Defense Construction"]

[Text] 1. A sovereign country must have its frontiers and, accordingly, frontier defense. Without frontier defense, the country would have no protection, and national safety and national interests would be at risk. This is a very simple and clear argument.

At present, the world's general situation continues to tend toward relaxation and a full-scale war is very unlikely to break out, but insecure factors around our country have not been removed. As a large part of our territory and territorial waters are still occupied by other countries, international hostile forces are energetically pursuing a strategic policy of "peaceful evolution" against socialist countries. A number of reactionary organizations abroad continue to carry out subversive activities against China and are sowing dissension among the various nationalities. Boundary disputes remain complicated and acute under the new historical conditions. We should vigorously improve our frontier defense in the interest of our national safety by making adequate use of the change in the world's strategic pattern and the comparatively stable international environment, so that we will have a powerful frontier defense corresponding to China's status as a big country.

Deepening our strategic understanding of the importance and urgency of improving frontier defense, and building up a close-kit, secure, lasting, and stable defense system are not only the needs of the times, but also an important mission endowed on us by history.

2. To prove frontier defense under new historical conditions, it is necessary to abandon the guiding ideology of making preparations at the last moment and to cultivate the concept of comprehensive frontier defense.

Threats around the country change, but the national interest never changes. It is necessary to take realistic threats into account when improving frontier defense, but we should not totally fall under the influence of the threats. Only when a country consistently makes efforts to improve its national defense can it secure its existence and independence, no matter whether there is an external menace or not, what socialist system it introduces, or what attitude neighboring countries adopt toward it.

Despite the fact that it is a neutral country, Switzerland makes it basic national policy to build a powerful national defense corresponding to its national actual conditions. Countries in Eastern Europe each have a large frontier force, although they have friendly neighbors. The Soviet Union's efforts to strengthen its frontier defense has never been obstructed or weakened by wars or political upheavals, so they said that their "frontier defense is unique in terms of security."

Therefore, in improving frontier defense, it is necessary for us to have a correct understanding of the relationship between frontier defense and good-neighborliness, between immediate and latent threats, and between temporary and long-term threats, rather than have to judge where the threat comes from by racking our brains or be dictated to by changing international situation. We should abandon the malpractice of "improving the frontier defense in accordance with the scale of war we are to fight," and not taking care of it during peacetime, cultivate the concept of comprehensive defense, and ceaselessly improve frontier defense.

3. To improve frontier defense under the new historical conditions, it is necessary to advocate active defense, raise the defense level, improve its quality, and strengthen overall defense capacity.

Historically, any sovereign country attaches great importance to improving overall frontier defense and extends its overall control over politics, economics, and military affairs to remote areas so that it has an overall defense capacity that corresponds to its status as a sovereign country and is powerful enough to defend national honor and state sovereignty.

At present, to defend the state's and nation's interest, it is necessary for us to build a powerful frontier defense to resist the enemy's aggression and extension, and to be fully prepared against threats to the safety of the boundary in peacetime so that we can defeat the enemy when a small-scale war breaks out, or even succeed in "bringing the enemy to their knees without the necessity of waging a war"; in case of a massive invasion, we can effectively resist the enemy or deter its advance to win more time for us to carry out strategic deployment or to create favorable conditions. Therefore, we must devote much attention to improving overall defense capacity.

The building of modern frontier defense is a systematic project. It not only involves national defense, politics, and economics, but also calls for support from the party, the administration, and the military. Only when the authorities at various levels reach a common understanding and the military and localities act in unison, can the comprehensive results of frontier defense building be improved and overall deterrent and actual fighting capacity be ensured.

Military building is undoubtedly an important aspect of our effort to improve frontier defense. The military building and defense capacity in strategically important border areas have an immediate bearing on the result of the war, because those areas are "hot spots" where small-scale wars are most likely to take place, and they provide strategic cover for various theaters of operations when a large-scale war is fought. Therefore, we have to pay great attention to military building in improving frontier defense. Without powerful military capacity, an overall powerful defense system would be out of the question.



Political means is an important guarantee for improving frontier defense capacity. As required by the task of improving frontier defense, we have to immediately work out suitable policies, laws, and regulations with respect to frontier defense in light of China's actual national conditions and various border conditions, set up a specific legal system, clarify the duty, responsibility, and right to enforce laws, conscientiously make education in the legal system universal, and strengthen the sense of legality on the part of soldiers and civilians in the border areas so that they will conscientiously act according to law. At the same time, it is necessary to profoundly carry out education in national defense and build a civilization with a high cultural and ideological level in border areas so that the Army and the people will have a common understanding in defending the frontier in the interest of the nation.

It is necessary to make border areas prosperous while improving frontier defense, which is, in fact, the Chinese nation's tradition developed since ancient times. The feudal dynasties of past ages paid great attention to bringing wasteland in border areas under cultivation and developing border trade. At the same time they set up prefectures and counties in border areas, built partition walls along the border, built post roads, and sent troops to defend the border. Since the founding of the New China, we have set up many production and construction corps in Xinjiang, Heilongjiang, Hainan, and other places. With a pickaxe in one hand and a gun in another, members of the corps reclaimed wasteland and engaged in production while defending the frontier regions of the motherland, promoting economic construction in border areas and making important contributions to the cause of safeguarding the country's territorial integrity and ensuring national stability. The practice constitutes China's important strategical measure to strengthen frontier defense. In the new historical period, despite the fact that the border areas are secluded, are sparsely populated, are backward in industrial and agricultural production and in science and technology, and the people's material and cultural levels are comparatively low, it is absolutely possible for us to further revive the economy in border areas and speed up construction if we regard economic construction as an essential factor for strengthening national defense, adopt correct policies and measures in tapping natural resources in border areas, and bring the advantages of border areas into full play.

4. Subject to the limited military budget, it is necessary to strengthen frontier defense "in moderation." We should not exaggerate the menace of war so that we will not vie with the government over funds that are needed in national economic construction and national army building, nor should we give up and ignore preparations against small-scale wars for the reason that a full-scale war is unlikely to break out for the time being. To improve the frontier "in moderation," it is necessary to have a practical and realistic understanding of the changing international situation and the environment of

border areas, to make a scientific study of them, and to make a correct analysis of the demand of national defense made by China's economic construction. It is also necessary to properly handle the contradiction between the objective requirement of securing national stability and the existing frontier defense capacity, which fails to meet the requirement, and find out what problems must be solved and can be solved immediately. Only by doing what we are capable of, stressing the main points, striving for development, and emphasizing practical results can frontier defense be steadily improved.

To exploit and utilize natural resources in a comprehensive way, to gain the greatest possible investment income, and to eliminate the malpractices by which localities and the Army vie with each other for funds and invest in similar projects with high consumption rates and low efficiency, it is necessary to make the army's interest compatible with localities' so as to improve profitability. European ships are at once merchant ships and warships. During the 16th and 17th centuries a number of colonial countries used "merchant ships" to capture colonies and vigorously develop the economy. When Britain was at war with Argentina over the Falkland Islands, it sent 44 warships and requisitioned 45 merchant ships. We should incorporate the experiences of other countries in improving our frontier defense, and find ways to overcome difficulties by making the interests of the Army and localities compatible with each other. To achieve this, the local party and government leading bodies should include military building in their package for economic construction in border areas, promote transportation, postal and telecommunications service, war production, and material supply within their jurisdiction step by step in a planned way in a great effort to form a comparatively independent industrial system, a relatively developed transport system, and a relatively developed postal and communications system so that these systems will serve military purposes when a war breaks out. Likewise, while updating military facilities to satisfy the needs of preparations against war, the Army should take civilian requirements into account so that national defense building and economic construction will complement each other and go hand in hand.

#### **More Efficient Use of Defense Scientific, Technical Corps Urged**

900N0125A Beijing ZHONGGUO KEJI LUNTAN  
[FORUM OF SCIENCE AND TECHNOLOGY IN  
CHINA] in Chinese No 5, 18 Sep 89 pp 43-46

[Article by Zhang Jianshu (1728 1696 2885), Ma Dangsheng (7456 8093 3932), and Liang Zhenxing (2733 2182 5281): "Analysis of the Present State of the National Defense Scientific and Technical Corps and an Exploration of Policies for Developing It"]

[Text] By national defense scientific and technical talent is meant the permanent scientific and technical cadres engaged in national defense scientific and technical research, and in the research and development, testing,

and production of weapons systems. The national defense scientific and technical corps is the foundation for national defense scientific and technical talent.

#### **A. Analysis of the Present State of the National Defense Scientific and Technical Corps**

During the more than 30 years since its founding, the People's Republic of China has established a massive and powerful national defense scientific and technical corps, which has made enormous contributions both to the building of national defense and to the building of the national economy. This national defense scientific and technical corps, which is of quite high quality and is very able to tackle key problems, is the cream of the country's entire scientific and technical corps. It is an important force for building the national economy and for building national defense. However, under the new circumstances, development of the national defense scientific and technical corps is facing profound challenges, while at the same time, sharp contradictions and problems exist within it.

##### **1. Potential of the national defense scientific and technical corps awaits further development.**

With the establishment of a development strategy centering on economic construction, as well as a strategic shift in the guiding thought about the building of national defense, the state made large-scale reductions and readjustments in national defense research and production. The huge scientific and technical corps consisting of numerous specialties built up under the guiding thought of imminent war is facing "starvation" or "semistarvation." In 1987, the gross output value of civilian products from national defense scientific and technical work amounted to approximately two-thirds of its gross output value; however, the national defense scientific and technical corps continues to face a situation of insufficient work to do, a relative surplus of manpower, and a waste of talent. The enormous potential of the national defense scientific and technical corps has yet to be used to the full.

Results of a sample survey we conducted among scientific research personnel in some Beijing research academies and institutes in the arms industry and spaceflight industry systems showed 20 percent as having no scientific research tasks to do, 12.3 percent as working entirely on civilian goods, 45.8 percent as working entirely on military goods, and 21.9 percent as working on a mixture of military and civilian goods. On average, only 51.6 percent of the abilities of scientific and technical personnel were being used, and 8.0 percent of these scientific and technical personnel felt only 10 percent of their abilities were being used. Specifically, the extent to which the abilities of young scientific and technical personnel under 30 were being used was generally lower, averaging only 40.4 percent.

The intensity of investment in national defense research, for which the average annual investment per capita of scientific research personnel is an important indicator, is

one manifestation of the force that propels national defense scientific and technical progress. It is also an important requirement for the development of national defense science and technology. At the present time, the intensity of per capita investment on the national defense science and technology front is low. More hands are available than are needed. This has led to a decline in work efficiency on the national defense scientific and technical front. Development of national defense science and technology lacks needed impetus. National defense research requires a large amount of investment, generally between two and three times again as much as research for civilian purposes. However, because of the enormous size of the national defense scientific and technical corps, the per capita state investment in national defense research academies and institutes is lower than the per capita investment in research organizations in the civilian sector. Per capita investment in national defense research in China is roughly one-eighth that of the United States, one-sixth that of France, and one-fourth that of the United Kingdom or West Germany. The extremely low per capita investment in national defense research means that a substantial portion of limited funds for national defense science and technology are used largely to keep the huge national defense scientific and technical corps in existence, so it is difficult to increase the national defense scientific and technical corps' per capita output.

In recent years, there has also been insufficient movement of personnel in the national defense research corps. With the tremendous decrease in national defense research and production tasks, the national defense scientific and technical corps should also have conducted appropriate readjustments and retrenchments. However, statistics from national defense scientific and technical research academies and institutes nationwide show only 2.2 percent of the total number of staff members and workers as having been transferred out. Among them, those holding intermediate- and high-level technical positions accounted for 3.2 percent of the total number of high-level research personnel. During the same period, personnel entering on duty numbered 1.8 percent of all staff members and workers. Among them, those occupying high-level technical positions numbered 2.7 percent of all high-level research personnel. If the number of assigned grades are taken into account, the trend was toward an increase in the size of the national defense scientific and technical corps. Therefore, movement in the current national defense scientific and technical corps shows that in terms of both numbers and quality, the movement of people is still a very long way from being enough to impair smooth performance of national defense research and production tasks. The main problem remains the huge size of the national defense scientific and technical corps and excessive overstaffing. One of the major ingredients in policies for development of national defense scientific and technical personnel during the new period should be to enable

existing talent to play a full role on the national defense scientific and technical front and the national economic front.

2. A latent crisis in development of the national defense scientific and technical corps is a lack of people to carry on and a shortage of talent.

At the present time, the attractiveness of the national defense scientific and technical front to scientific and technical personnel (particularly young scientific and technical personnel) is on the wane. People's ideas change, and people's thinking strays. The sample survey that we conducted in some Beijing research institutes in the weapons and spaceflight industry systems showed that only 50.2 percent of the scientific and technical personnel were content or largely content. Among young scientific and technical personnel under 30, in particular, only 3.8 and 38.6 percent of personnel were content and largely content, respectively; 29.1 percent of personnel were unhappy in their positions; and 8.7 and 18.9 percent, respectively, were thinking of leaving or were in processing of looking for opportunities to leave. In view of this situation, we conducted a survey using a questionnaire on reasons for the declining attractiveness of the national defense scientific and technical corps. Results showed that among the 19 reasons we had listed as leading to declining attractiveness of the national defense scientific and technical corps, an overwhelming majority of scientific and technical personnel felt that "in the scientific research field, a situation of equal competition has yet to be established," "leaders' management skills and leaders' abilities were poor," "wages and benefits were not as good as in civilian life or in working on civilian goods," "few opportunities to engage in exchanges or to go abroad for advanced studies," "slow promotions," and "insufficient research work to do, fund shortages, and impossibility of doing work," and so on, were all reasons for the decline in attractiveness. Clearly, national defense scientific and technical personnel urgently need to create a work and living environment in which talent can grow to satisfy their need to attain success in their endeavors and a certain amount of economic benefits. Among the more than half of the scientific and technical personnel on the national defense scientific and technical front who were located in the three hardship regions, the straying of thoughts will be greatest. A look at the impediments to their movement at the present time shows the main reasons to be reliance on administrative restraints and the old personnel system. As national economic and personnel system reforms steadily deepen, unless effective actions are taken to increase attractiveness, the national defense scientific and technical corps faces a large scale loss of talent.

A look at the present age structure of the national defense scientific and technical corps shows that personnel age 45 and older account for approximately half the total number of scientific and technical personnel; therefore, there were very few retirements during the Seventh and Eighth 5-Year Plan periods. Staffing and

work limitations will adversely affect the future assignment of college graduates to replenish the national defense scientific and technical corps. In addition, for historical reasons, an overwhelming majority of the permanent cadres on the production front are middle-age or older scientific and technical personnel about 50 years old. Given the insufficient amount of work to do and the relative overstaffing of personnel, incumbent young scientific and technical personnel find it difficult to obtain opportunities for training and tempering. If this situation continues, once large numbers of these middle age and old scientific and technical personnel retire after the year 2000, there will possibly be a shortage of experienced national defense scientific and technical permanent cadres, which could lead to slow or stagnant development in national defense science and technology.

In view of past serious problems in developing a national defense scientific and technical corps, we must adopt genuinely effective policies for the development of national defense scientific and technical talent in order to ensure the continued and stable development of national defense scientific and technology to advance the modernization of national defense and the national economy.

#### **B. National Defense Scientific and Technical Talent Development Policy**

1. In the new climate of a planned commodity economy, intensification of the concepts of "respect for knowledge and respect for talent," and of an awareness of national defense is the fundamental point of departure for a policy to develop national defense scientific and technical talent.

One extraordinarily valuable experience gained in the development of national defense science and technology over the past more than 30 years has been the need to respect knowledge and to respect talent in order to improve national defense science and technology. In the work assignment system, in particular, it is necessary genuinely to express respect for knowledge and for talent, gradually putting into effect the principle of "distribution according to labor." We must provide more education in national defense awareness throughout society, and particularly among young people, so that society will see extraordinarily clearly today's circumstances and the situation we are in. We must also spell out the threats we face, and their effect on the survival of the nation, thereby generating an intense awareness of tribulations and an awareness of national defense. National defense scientific and technical personnel should be accorded a rather high social position and political honors.

2. Building of a crack national defense scientific research and production corps in accordance with the need for "small scale and high standards."

In the modernization of the country centering around economic construction, the fundamental way in which to



solve the problem of "large structure, low standards, and poor returns" on the national defense scientific and technical front is to institute regrouping and readjustments of the national defense scientific and technical front. The existing national defense scientific and technical corps has to be incorporated into the overall national construction corps, with a readjustment of military and industrial means of production forming the basis, and using the kind of work performed, investment, pay and benefits, and rules and regulations to guide and attract a new national defense scientific and technical corps having between one-half and one-third the number of personnel of the existing corps. This corps would take responsibility for national defense research and production as its primary task, becoming a central force for the development of national defense science and technology. The main energy or all the energy of the forces left over from the original corps should be invested in the main battle ground of building the national economy. They, along with the entire national economy, would become a large sphere for the development of national defense science and technology, but they would no longer be in the category of the national defense scientific and technical corps. This new corps would be of the combined military and civilian type, that is, it would not only have a certain amount of capability to take part in the development of civilian products, particularly giving full attention to the transfer to civilian use of techniques used for the armed forces, but also would give close attention to the transfer to military use of techniques used in civilian life. In the building and development of this corps, full attention should be given to the maintenance of a rational age structure, (the proportions of the 46 and above, 30 to 45, and below 30 age groups being generally maintained at 3:4:3) in order to ensure their steady, sustained development. The emphasis should be on the enrollment of highly educated graduates as a starting point for improving the quality of this corps.

3. Accelerated training of young scientific and technical personnel, allowing them to become permanent national defense research and production cadres as soon as possible

The key to building a corps of national defense scientific and technical personnel by the year 2000 lies in the training and tempering of today's young scientific and technical personnel. Development and tempering on the national defense scientific and technical front for more than 30 years has produced a large number of outstandingly capable middle-age and older national defense scientific and technical experts. They are a valuable treasure for the development of national defense science and technology during a new period. The important role of middle-age and older experts shows up mostly in three regards. One is in solving difficult technical problems, organizing the tackling of difficult problems, and leading the attack on key problems. The second is in training talent and educating people. The third is in providing advice on important decisions. In view of the large number of middle-age and older scientific and technical

personnel presently in the national defense scientific and technical corps, and the paucity of jobs in military ordinance, we recommend the following in accordance with the spirit of instructions from Central Committee leading comrades on the need for old experts to devote attention to the training of successors. Let most of the middle-age and older scientific personnel currently serving full-time as leaders or as permanent cadres in the front line of national defense research and production phase into jobs as mentors and advisers for the cultivation and training of young technical personnel, taking up the important responsibility of educating people and providing advice. Those middle-age and older scientific and technical personnel who are too old, feeble, and sickly, or whose scientific and technical creativity is markedly reduced should be given early retirement or moved into the second line of activity. Some outstandingly capable permanent cadres should be selected from among middle-age and young scientific and technical personnel for training to become permanent national defense research and production cadres. Restrictions on their use should be courageously removed to charge them with important tasks and the provision of active guidance. Not only should attention be devoted to fostering their skills and capabilities for engaging in national defense research and production, but they should also be educated to establish a spirit of making contributions to national defense scientific and technical endeavor that enables them to show their talent, mature rapidly, and to assume heavy responsibilities in scientific and technical work.

4. Institute the principle of combining responsibilities, achievements, and benefits to create a work and living environment for national defense scientific and technical personnel that helps the maturation of talent

a. Introduce a competition mechanism to create a climate for competition among talented people. Various measures, including calling for tenders, contracting, public notice of vacancies, and optimized labor groups, may be employed to work on scientific research topics and technical projects, with particular attention given to the courageous use of young scientific and technical personnel, building a wage system, a system for appointments to positions requiring specialized skills, a personnel management system, and various kinds of award systems that directly link work achievements to wages, bonuses, promotions, advanced studies abroad, refresher training, housing, and political honors. Results achieved in competition should be expressed concretely in the receipt of material and spiritual benefits by scientific and technical personnel, competition thereby becoming a form of encouragement that both motivates and pressures scientific and technical personnel.

b. Readjust the wage structure. For a long time, the form of distribution characterized by "egalitarianism," which was shaped under the old system, was manifested in more than just different distributions for physical labor and mental labor. Even among scientific and technical

personnel engaged mostly in mental labor. "egalitarianism" was also fairly serious. Unjust social distribution greatly dampened the creative enthusiasm of scientific and technical talent. In recent years, the inversion between mental and physical labor has become increasingly serious, while at the same time, income differences among scientific and technical personnel have increasingly narrowed. A State Statistical Bureau survey of 48 cities showed a narrowing of the wage earnings gap between trainee researchers and full-fledged researchers in scientific research units from one-third to one-half by the first half of 1988 versus 1985, and a narrowing of the wage income gap between assistant professors and full professors from 1/4:1 to 1/2:1. In addition, because of the failure to apply reform measures, in recent years, the average wage level of national defense industries primarily in the high-technology field has declined with each passing year. It is now lower than the average wage level in industrial units under jurisdiction of the State Council. Therefore, reform and readjustment of the wage system is imperative. The principles to be applied in reform and readjustment are as follows: Link closely wages and benefits to the size of contributions, determining wage earnings on the basis of people's actual level and the contribution they make, remuneration for labor thereby genuinely becoming a reflection of the objective value of labor achievements. It is necessary both to solve the "mental and physical labor inversion" problem in the overall wage levels of scientific and technical personnel inside and outside the armed forces, and to widen the difference in wages for different technical grades, following the principle of "top wages for top work," increasing tremendously the wage income of scientific and technical personnel who make outstanding contributions. For scientific and technical personnel directly responsible for key national defense scientific and technical projects, key project position subsidies should be instituted. In this way, an increasing number of scientific and technical personnel can rely on diligent performance of creative intellectual work to become wealthy. In addition, it is necessary to fully affirm the tremendous contributions to the overall increase in national strength of the national defense scientific and technical front line, fully demonstrating the principle of distributions according to labor in the wage system.

c. Solve scientific and technical personnel personal worries in order to allow them to devote themselves completely to national defense research and production. Insofar as the country's national circumstances permit, priority should be given to scientific and technical personnel in the near future on housing problems, job placement of dependents, and the placement in schools of their children. For resigned and retired personnel, an indexed retirement system should be adopted so that as the economy develops their real standard of living does not decline. The health of middle-age and old scientific personnel should be looked after, both the physically frail and sickly should be given treatment and, depending on the circumstances, either transferred to less demanding jobs or retired early.

5. Special policies should be adopted gradually to encourage scientific and technical personnel who work in border regions and in dangerous job assignments.

Readjustments and curtailments should be made regarding work in border regions and dangerous job assignments as realities permit. Places having necessary conditions should establish rear area support bases for border region scientific research units in large and medium-size cities, doing everything possible to institute systems for the regular rotation in groups of personnel to border assignments, and curtailing to the maximum extent the staffing of border regions and dangerous job assignments.

Preferential wages and benefits. The wage income of scientific and technical personnel working in border regions or in dangerous job assignments should be guaranteed to be 30 percent or more higher than the real wage income of the same category of personnel assigned to medium-size cities. Those making special contributions should be given a certain amount of additional compensation, and personnel staffing, material supply, and standards for various expenses should be better than for the same job assignments in large and medium-size cities in order to increase the attractiveness of such work.

Scientific and technical personnel who work in hardship areas or in dangerous assignments should have a fixed period of service. Regulations might permit those having 10 to 15 years service in such work to request transfer, their request receiving priority consideration and being actively addressed. They should receive special treatment following resignation or retirement with regard to where they locate and perquisites, and they should receive fairly high political honors.

6. Form a mechanism for the regular movement of national defense scientific and technical personnel.

The traditional personnel management system has obstructed the development of national defense scientific and technical talent. Department and unit jurisdiction over human talent has not been helpful either in making full use of the social effectiveness of talent, or in steadily improving the quality of the talent itself. This has resulted in the bizarre situation in which a surplus of national defense scientific talent, and insufficient talent exist at the same time. Therefore, we should use reform of the traditional personnel management system as a basis for setting up a new mechanism for the movement of national defense scientific and technical personnel, shaping a system that turns out national defense scientific and technical personnel in an endless stream to make full use of their effectiveness in the building of national defense and the national economy. A mechanism for the movement of national defense scientific and technical personnel would include two main aspects. It would be guided in an overall way by national defense scientific and technical strategic development goals and emphasis, as well as tasks, investment, and remuneration to effect control over the size of the national defense

scientific and technical corps, control over its makeup, and control over its quality, as well as planned overall movement of personnel between one department and another, one area and another, and between military and civilian research and production. In a micro sense, both the unit employing the worker, and the worker himself would be able to choose each other, with the employing units having hiring and firing authority and the worker having the right to choose whether to accept work in the unit and the right to resign, thereby gradually establishing a "labor market," and realizing optimized labor groups through the use of measures such as the labor contract system.

7. Increase the percentage of funds invested in education, giving close attention to the building of national defense scientific and technical schools.

Education is the foundation on which human resources are built. The serious shortage of educational funds is an important reason restricting the building of high-standard, high-quality scientific and technical reserves. Additionally, daily advances in the world's new technological revolution enables education to become a major support for steady improvement in the quality of the national defense scientific and technical talent corps. The percentage of funds invested in education in China is currently low. In recent years, the mean value of investment in education has been 2.65 percent of national income. Investment per student in national defense scientific and technical schools should be slightly higher than for schools of the same kind at other than the national level. Specialization in war industries should be widened further, and the pace of reform of national defense schools accelerated. Close attention should be given to continuing the education of national defense scientific and technical personnel, gradually instituting a system whereby national defense technical personnel have an opportunity to take advanced courses in schools once every three to five years.

#### Training Improved in Antichemical Warfare

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1 Dec 89 p 2

[Report by Tang Fen (3282 1164) and Chen Tangsheng (7115 0781 0524) with editor's postscript: "Antichemical Warfare Corps of Certain Group Army Does Well in Military Training"]

[Text] The Antichemical Warfare Corps of a certain group army of the Nanjing Military Region has undergone tough training in defense and operational skills under modern nuclear and chemical conditions, with remarkable results achieved. This year, antigas training was carried out more than 1,000 times. Seven new training programs were also created. Tests on new arms were completed. Of the training programs, 14 were subjected to grade-two examinations and passed by the military region and the group army. Fine results were achieved for 12 of the programs and excellent results for the other two. The excellent results achieved for the 12

programs exceeded the standard for excellence set by the headquarters of the General Staff.

This year, this group army guided by the idea of taking military training as the center, stepped up the training of various services of the Army. In education on army functions, antichemical-warfare soldiers showed keen enthusiasm in training and drove themselves hard in studying and practicing antichemical warfare skills. In mid-June, after completion of a common training program, the valiant antichemical-warfare fighters of the whole group army gathered at a certain campground in southern Fujian to start a 100-day troop training contest. It was a very hot summer. Officers and men grappling with high temperatures and sweltering heat tried to outperform each other in the contest. About 200 well-trained fighters distinguished themselves in the competition. After a firm foundation was laid for single-soldier, single-vehicle, and single-gun training through the contest, they again set their sights on future operations to increase the magnitude, difficulty, and danger of training and to organize army units to head for gas-affected areas for training in rapid march on foot, forced march, motorized travel, and various mobile forms. On new terrain and under high temperatures in the sweltering heat of summer, training resembling actual antichemical warfare was conducted. Officers and men underwent antichemical-warfare training more than 1,000 times, and were given a tactical background. They acquired such demanding skills as doing reconnaissance quickly, making surveys quickly, doing a thorough job of sterilization, and gathering in proper formation. The training raised the overall antigas ability of the antichemical-warfare squads under nuclear and chemical conditions. The antichemical-warfare department of the headquarters of the General Staff took a look at their training conditions and highly praised them.

Leaders at various levels of this group army made great improvements and progress in their methods of organizing training this year, due to concentration of efforts on doing a good job of training. With an appreciation for the highly technical nature of the training of antichemical warfare troops, the difficulty of guaranteeing training, and the previous practice of various squads mostly going their own way, with scattered, small-scale training and with the results of training adversely affected, in the stage of specialized basic training they take the group army as a big system, carry out concentrated training based on the categories of specialized skills, and resort to unified organization, planning, guarantees, and assessment, and they put targeted training, the time of training, relevant personnel, content, and results on a guaranteed basis. All antichemical-warfare squads fulfilled 100 percent of the current yearly basic training tasks. They also successfully accomplished two testing jobs entrusted to them by the headquarters of the general staff, and were cited by the military region and staff headquarters.



### Postscript: Strengthen the Sense of Functions

Given a strategic change in the guiding thought for the building of our Army, army building has switched to the orbit of construction in times of peace. But this does not mean that training in defense operations under nuclear and chemical conditions is no longer important. There may not be a long-lasting big war, especially a major nuclear war. But there is no ruling out local wars and armed conflicts, given the nuclear threat. Of the 22 local wars taking place in the world after World War II, six saw the use of chemical weapons. World opinion has been very loud in its call for the destruction of nuclear weapons and the prohibition of the use of chemical weapons. But in the past half century, nuclear and chemical tests by nuclear superpowers have continued. There has never been an end to the use of chemical weapons on the battlefield. Only by increasing our defense capabilities can we join the world's peace force in contending with and containing nuclear and chemical warfare and maintain peace. Such is the case with antichemical-warfare troops. Various other services should also all increase their sense of functions and train well in skills, enabling our Army to really become an impressive force.

### Understanding Relations Among Military Ranks

*HK1412085789 Beijing JIEFANGJUN BAO in Chinese 23 Nov 89 p 3*

[Article by Liu Yan (0491 1484): "On Definition of Relations Between Higher and Lower Levels of Military Personnel Under Different Subordinations"]

[Text] The provisions in our Army's existing "Interior Service Regulations" that deal with relations between higher and lower levels of military personnel go against the same in the "Regulations on Military Ranks of Military Officers" and the "Service Regulations for Soldiers on Active Service." The latter two sets of regulations stipulate that "Officers (soldiers) who have higher military ranks are the superior of officers (soldiers) who have lower military ranks. When officers (soldiers) who have higher military ranks are under the command of officers (soldiers) who have lower military ranks in performing duties, the latter are the superior." The "Interior Service Regulations" make it a rule that for soldiers without affiliation in terms of their posts, those who hold higher posts are the superior and those who hold lower posts are the subordinate. Those who hold similar posts are of the same level. If they do not know each other's post, those who have higher military ranks are the superior, while those who have lower military ranks are the subordinate. Those who have the same military ranks are of the same level. Evidently, the latter two sets of regulations, in defining the relations between soldiers under different subordinations, only take military ranks into account to the exclusion of positions; while the "Interior Service Regulations" define the relations basically in line with posts, with the exception that military ranks determine the relations

when both sides have no idea of each other's post. Therefore, how to define the relations between higher and lower levels of military personnel under different subordinations so that the legal norms will not go against each other, is a subject that merits discussion.

As far as legal authority is concerned, the "Regulations on Military Ranks of Military Officers" are China's laws, which enjoy higher authority than the "Interior Service Regulations," which are, in fact, military administrative statutes. The "Service Regulations for Soldiers on Active Service" and the "Interior Service Regulations" are of the same level, but under the principle of new regulations being superior to old regulations, the regulations promulgated later should be taken as the criterion. Some comrades, however, maintained in their articles that the "Interior Service Regulations" are more reasonable and conform, to a greater degree, to our Army's existing internal relations. I cannot agree with this opinion.

In my opinion, the provisions in the "Interior Service Regulations" on relations between soldiers under different subordinations not only call for revision in terms of legal authority, but they were also not as scientifically worked out as were provisions in the other two sets of regulations, and they should keep in step with the latter. That is, for those soldiers who form affiliation in terms of their duties, posts basically determine their relations, for those without affiliation in terms of their duties, military ranks should basically decide their relations. The reasons are:

**Military laws and regulations should define relations between soldiers in line with legal relations between people over their rights and duties.** Like the other two sets of regulations, the "Interior Service Regulations" must tally with legal principles and satisfy the technical requirements of legislation, since it defines legal relations.

**The legal relations between soldiers under different subordinations can satisfy the requirements of the legal principle only when we define the relations by means of military ranks.** Jurisprudence holds that legal norms themselves will not directly lead to formation, change, and passing away of concrete legal relations. They can only provide a formula for formation, change, and extinction of relations, and only when legal facts that conform to this formula are available can concrete legal relations come into being, develop, and pass away. Therefore, the formation of legal relations between soldiers is subject to two essential factors. One factor is legal norms that provide a formula of legal relations between two parties concerned, and the other factor is legal facts that conform to this formula. The "Interior Service Regulations" and the other two sets of regulations acknowledge that the two legal facts, that is, posts and military ranks, are key elements forming the basis of relations between soldiers. However, the "Interior Service Regulations" and the other two sets of regulations differ from each other on conditions under which relations are defined on the basis of posts or military

ranks. It is necessary to make a brief analysis of the legal status of posts and military ranks.

I believe the most authoritative legal criteria for judging the legal status and legal relations of soldiers' posts is the formula provided by legal norms on military organizational establishment and command order (zhi hui xu lie 2172 2264 1645 0441) worked out by the supreme military administrative organ. The most authoritative legal criteria for judging the legal status and legal relations of soldiers' military ranks is the formula provided by the legal norms on military ranks system worked out by the government. The reason for the necessity to define the legal relations between soldiers with affiliation mainly on the basis of their posts is that they are provided with applicable conditions that were affirmed when working out laws and regulations on command order. The argument is simple: It is posts rather than military ranks that form the basis of laws and regulations on command order (that is, affiliation). Given such a condition, military ranks must be subordinate to posts. For those soldiers without affiliation, namely, if they do not serve in the same organizational system, they have only loose relations in terms of posts, because there are no applicable conditions between them that were affirmed when working out laws and regulations on command order. However, in terms of military ranks, they have between them applicable conditions affirmed by legal norms on military ranks. Hence, it is not difficult to realize that the legal relations between soldiers without affiliation is much clearer in terms of military ranks than in terms of posts. Therefore, given such a condition, we can only satisfy the demands of the legal principle by defining legal relations between soldiers mainly on the basis of military ranks. Such a practice is widely followed by armies in most countries throughout the world, as is also provided for in our "Service Regulations for Officers" issued in 1955 and 1963, and "Interior Service Regulations" issued in 1957.

We can only meet the technical requirements for legislation by defining the legal relations between soldiers without affiliation in accordance with military ranks. Legal norms must be specific, concrete, and rigorous, rather than ambiguous and equivocal, otherwise, the enforcement of laws will be adversely affected. The article in the "Interior Service Regulations" to the effect that "when soldiers do not form subordination in performing duties, those who hold higher posts are the superior and those who hold lower posts are the subordinate" is exact in concept and clear in connotation, and

will not cause confusion in enforcement. But it will be difficult to enforce the provision dealing with relations between soldiers under different subordinations (see quotation at the beginning of this article), because it is essentially an ambiguous provision. According to this provision, it is not the objective legal fact but the subjective consciousness that determines relations between soldiers who have no affiliation in terms of posts. That is, when both sides "know" each other's post, the relation is determined by their posts, and by their military ranks when they "do not." This is not an objective criterion to judge whether they "know" or "do not know." Therefore, once legal consequences are involved, it will be very difficult to make a correct judgment. In addition, as the contacts and relations between soldiers are varied and complicated, and the orders to appoint and remove officers are generally not issued to units without affiliation, those who knew each other's post before do not necessarily know their present posts even though they were familiar with each other before. Again, the posts before a war may undergo changes during the war, and some people may get to know others' posts through hearsay, which can not be regarded as a legal basis. It is more difficult for a group of soldiers to know each other's post if they meet by chance. Therefore, it does not meet the technical requirements of legislation to define legal relations by the "subjective consciousness," as described above, and it will surely bring about confusion in practice. On the contrary, symbols that show military ranks are very clear signs for identification applicable in the whole army, and are legally authentic. To define relations between soldiers who have no affiliation in terms of their duties, will not only satisfy the technical requirements of legislation, but will also make convenient the observation and enforcement of the law.

Military ranks are "designations to denote soldiers' ranks", their principal functions in army building or battles lie in determining the soldiers' order of ranks so as to heighten their sense of organization and discipline. Especially when soldiers perform duties in localities, military ranks can play a role which their posts cannot. The authority of military ranks is recognized not only by armies of the same country, but also by allied forces. Therefore, we should make adequate use of the military rank system to promote and safeguard our Army's good order. The malpractice of ignoring and belittling the importance of military ranks as experienced in the mid-1960's is no longer allowed.

## EAST REGION

### CPC Guidelines Studied by Anhui Democratic Party

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[Text] The second plenary session of the third Anhui provincial committee of the China Democratic National Construction Association, presided over by Comrades (Rong Guanghong) and (Wang Shun), was held in Hefei from 16 to 18 December 1989.

The meeting conscientiously studied the guidelines of the 5th Plenary Session of the 13th CPC Central Committee and the 11th Session of the 4th Anhui Provincial CPC Central Committee. It also conveyed and studied the guidelines of the second plenary session of the fifth Central Committee of the China Democratic National Construction Association.

The meeting adopted a resolution on implementing the guidelines of the 5th Plenary Session of the 13th CPC Central Committee and the second plenary session of the 5th Central Committee of the China Democratic National Construction Association. The resolution pointed out: The guidelines of the 5th Plenary Session of the 13th CPC Central Committee and the second plenary session of the 5th Central Committee of the China Democratic National Construction Association are currently, and for some time to come, the central task for our associations. It is necessary for our associations at all levels in the province to fully bring into play the characteristics of our associations, which have close ties with economic work and carry out an investigative study in a systematic manner to actively provide useful opinions and suggestions to local CPC Committees and governments.

On behalf of the Standing Committee of the Anhui Provincial China Democratic National Construction Association, chairman (Rong Guanghong) made a work report to all committee members. The report made suggestions on the 1990 work of the association. It urged all associations and members in the province to continue to strengthen and improve political and ideological work, to further strengthen party building, and bring into play the role of party politics to implement all missions assigned by the 5th Plenary Session of the 13th CPC Central Committee and work hard for the decisive victory in improving the economic environment, rectifying economic order, and deepening reforms.

### Report on Jiangxi Provincial Congress Session

OW1001061390 Nanchang Jiangxi Provincial Service  
in Mandarin 1100 GMT 24 Dec 89

[Text] The 12th session of the 7th provincial People's Congress held its 2d plenary meeting today.

The meeting heard several reports, from Zhou Zhiping, director of the provincial Foreign Economic Relations

and Trade Department, on the province's work in the area of foreign economic relations and trade; (Chen Jingbao), deputy director of the provincial Foreign Affairs Office, on the work concerning Overseas Chinese; Li Ying, president of the provincial Higher People's Court, on the teenager and good deeds campaign launched by some courts in the province; (Sun Suzhen), deputy head of the provincial leading group in charge of wiping out the six vices, on provincial efforts to unify actions in eliminating the six vices; Gao Peide, deputy procurator of the provincial People's Procuratorate, on the work of the inspection of enforcement of law and discipline in procuratorial departments provincewide; Wang Zemin, chairman of the Credentials Committee of the Standing Committee of the seventh provincial People's Congress, on an investigation of the credentials of the deputies elected in by-elections to the seventh People's Congress, and from Vice Governor Zhang Fengyu on the handling of criticism and proposals made by deputies at the second session of the seventh provincial People's Congress.

The meeting also reviewed a namelist of appointments and dismissals submitted by the provincial People's Procuratorate. The Internal and Judicial Affairs Committee and the Education, Science, Culture, and Public Health Committee of the provincial People's Congress and [words indistinct] of the Standing Committee of the provincial People's Congress respectively presented a written report to the meeting on their handling of the proposals made by deputies at the second session of the seventh provincial People's Congress.

Vice Chairmen Pei Dean presided over today's plenary meeting. Vice Chairmen Wang Zemin and Huang Xiandu were present. Other attendees included Vice Governor Zhang Fengyu, President Li Ying of the provincial Higher People's Court, and responsible persons of relevant departments under the provincial People's Procuratorate.

### Shandong Governor Outlines Efforts To Upgrade Schools

SA2412105089 Harbin Heilongjiang Provincial Service  
in Mandarin 1000 GMT 21 Dec 89

[Excerpts] At the national on-the-spot meeting on raising education funds and improving teaching conditions which opened in Shandong on 21 December, Zhao Zhihao, deputy secretary of the Shandong CPC Committee and provincial governor, briefed participants on Shandong's situation in raising education funds and improving teaching conditions during the past few years. He said that to develop educational undertakings we have, despite sustained shortages of financial resources, depended on the whole society and opened wide the fund-raising channels in an effort to improve teaching conditions. In 1988, the province made an investment of 3 billion yuan in developing educational undertakings. Since 1979, when the province began rebuilding rural primary and middle school buildings, some 3 billion



yuan in education funds have been raised or contributed by various fields of society and by the masses, a total of 1.4 million schoolhouses with a total floor space of 28 million square meters have been repaired or built—106 percent of the schoolhouse space existing in 1979—and more than 90 percent of rural primary and middle schools in the province have realized the goal of effecting improvements in six fields. Now, the rebuilding of urban primary and middle schools is under way. [passage omitted]

Zhao Zhihao said that solving problems in the source of education funds is a key measure to promote the development of educational undertakings. Over the past few years, our province, like others in the country, has also experienced a serious strain on financial resources. To develop educational undertakings, it will not work to rely on the state allocations alone. We must persistently rely on diverse channels to increase educational investment through various forms. Shandong's methods are:

1) Ensure a bigger increase in educational allocations than in other allocations when breaking down financial allocations, and ensure a year-by-year increase in the students' per capita share of public allocations. 2) Make full and appropriate use of the policy concerning additional educational allocations. 3) Open up the channel of raising funds from localities. 4) Run schools with joint funds. 5) Replenish the educational allocations with the income from the work-study programs. 6) Encourage enterprises to run workers' education well.

Zhao Zhihao went on to say that, in 1979, our province began improving teaching conditions for primary and middle schools, with emphasis on rebuilding schoolhouses. Over the past 10 years, we have undergone three stages in this work. At the first stage, from 1979 to 1983, we primarily conducted investigation and study, summarized typical cases, and explored favorable experiences in line with the central authorities' demand that no school have a dangerous building, that every class have its own classroom, and that every student have his own desk and chair. During this stage, the scale of schoolhouse rebuilding expanded constantly and the standard improved gradually. At the second stage, from 1984 to 1987, the provincial authorities set forth the demand of effecting improvements in six fields through rebuilding schoolhouses and implemented the system of running and managing primary and middle schools by different levels. As a result, an upsurge of rebuilding schoolhouses was set off in rural areas of the province. At the end of 1987, more than 90 percent of rural primary and middle schools in the province realized the demand of effecting improvements in six fields. At the third stage, beginning in 1988, we have, on the one hand, consolidated the achievements scored in rebuilding schoolhouses, and, on the other, positively conducted the rebuilding of schoolhouses of urban primary and middle schools. It is estimated that by the end of this year, 20 counties and cities will basically complete the task of rebuilding schoolhouses of urban primary and middle schools.

### Zhejiang People's Congress Standing Committee Meets

*OW 1001065190 Hangzhou Zhejiang Provincial Service in Mandarin 1000 GMT 25 Dec 89*

[From the "Provincial Hookup" program]

[Text] The 13th meeting of the 7th Zhejiang Provincial People's Congress Standing Committee opened in Hangzhou today. Chairman Chen Anyu chaired the meeting.

The main items on the agenda are:

- Hearing and examining a report on the implementation of Zhejiang's 1989 plans and preliminary views on the 1990 plans
- Hearing and examining a report on the draft measures for Zhejiang's accountancy supervision
- Hearing a report on examining the draft organic regulations for presidiums of town and township people's congresses in Zhejiang
- Hearing a report on examining the draft regulations governing Zhejiang's education on national defense
- Hearing a report on examining the draft regulations of Ningbo Municipality against gambling
- Hearing a report on examining the draft revised regulations governing planned parenthood in Zhejiang
- Hearing a report on examining Hangzhou's regulations for settling labor disputes
- Hearing and examining a report on the motions submitted during the Second Session of the Seventh Zhejiang Provincial People's Congress, and on proposals about the way these motions should be handled
- Hearing a report on the inspection of Shandong Province's vocational education
- Hearing and examining a report on personnel appointments and dismissals

Attendees of the plenary session today heard the first five reports presented, respectively, by Ma Chunying, chairman of the provincial planning and economic commission, Yang Bing, vice chairman of the Zhejiang Provincial People's Congress Standing Committee and its legislative affairs committee, and Yang Zhanda, Cui Bo, and Yu Hepa, vice chairmen of the legislative affairs committee of the Zhejiang Provincial People's Congress Standing Committee.

Vice Chairmen Wu Minda, Wu Zhichuan, Wang Qidong, and Wang Yumin were present at today's meeting.

Vice Governor Wang Zhonglu and Zhan Shaowen and Ding Devun, vice chairmen of the provincial committee of the Chinese People's Political Consultative Conference, and responsible persons of the provincial Higher People's Court and the provincial procuratorate, relevant government departments, standing committees of various municipal People's Congresses, and working committees of various district People's Congresses were present at the meeting as nonvoting observers.

## CENTRAL-SOUTH REGION

**Guangdong Conscription To Begin in February**

HK0801111490 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 6 Jan 90

[Excerpt] The provincial people's government and the Guangdong Provincial Military District held a joint telephone conference, pointing out that this year's conscription of our province will begin by 10 February.

The meeting was presided over by Zhang Juhui, a member of the provincial party committee Standing Committee and commander of the provincial military district. Governor Ye Xuanping and Vice Governor Ling Bolang attended and addressed the meeting. In his speech, Governor Ye Xuanping pointed out that this year's conscription will be carried out under the excellent situation in which the province has achieved initial results in implementing the central policy of improving the economic environment, rectifying the economic order, and further carrying out reform, and the entire party, the whole Army, and the people of the country are further carrying out the spirit of the 5th Plenary Session of the 13th CPC Central Committee, and it is of special significance because it is the first call-up following the victory in quelling the rebellion. He emphasized that out of their sense of weighty responsibility to the party, the state and the Army, leaders at different levels should pay close attention to the work, surmount difficulties, and guarantee both quality and quantity in fulfilling the task of this year's conscription. [passage omitted]

**Guangzhou Fosters 'Lei Feng Spirit'**

HK0401045190 Beijing ZHONGGUO XINWEN SHE in Chinese 0634 GMT 3 Jan 90

[Text] Guangzhou, 3 Jan (ZHONGGUO XINWEN SHE)—Huge portraits of Lei Feng are appearing on the streets of Guangzhou City and the "Lei Feng spirit" that has subsided for over 20 years is reviving in the city.

A few days ago, 10,000 young students and workers went out in the busy streets to do good deeds for society, such as sweeping the streets clean, maintaining public order, and helping the aged and disabled. This propaganda action of "holding aloft the torch of the Lei Feng spirit and building New Guangzhou of the 1990's" was organized by Guangzhou City Communist Youth League Committee. Many shop attendants are also wearing a sign saying "learn from Lei Feng" and enthusiastically receiving their customers. Middle and primary schools are conducting a "Learn From Lei Feng Day" campaign to serve society.

People here differ in their views on learning from Lei Feng. Some people believe that fostering the Lei Feng spirit again in the 1990's is necessary for educating the young people and juveniles. Other people believe that because the general mood of society is bad and moral standards are low at present, good results may not necessarily be achieved through propaganda.

**Henan Vice Governor Views Company Rectification**

HK2712050589 Zhengzhou Henan Provincial Service in Mandarin 2300 GMT 22 Dec 89

[Text] Qin Kecal, vice governor of Henan Province, delivered a report on the progress of the campaign aimed at further screening and rectifying all types of companies at the recently concluded 13th Meeting of the Seventh Henan Provincial People's Congress Standing Committee.

In his report, Comrade Qin Kecal pointed out that Henan Province has already abolished and merged or has planned to abolish and merge a total of 5,963 companies. The province has also cracked a total of 638 economic cases involving more than 10,000 yuan and arrested a total of 71 people involved in various economic crimes.

Comrade Qin Kecal said that the guiding ideology adopted by the Henan Provincial CPC Committee and the Henan Provincial People's Government with regard to the campaign of screening and rectifying various types of companies is to make resolute, active, prudent, and steady efforts to further the campaign of screening and rectifying various types of companies. In accordance with this guiding ideology, Henan Province has already abolished and merged 58 companies in the first phase of its work. The leading group in charge of the work of screening and rectifying various types of companies under the Henan Provincial People's Government has already publicly published a list of the companies that have been abolished or merged.

Comrade Qin Kecal said that the office in charge of the work is currently engaged in the second phase of abolishing and merging companies at provincial level. Various cities and prefectures are also accelerating their work. The province has already abolished and merged and planned to abolish and merge a total of 5,963 various types of companies, which account for 32.79 percent of the total number of companies at the end of 1988.

Comrade Qin Kecal said that in screening and rectifying various types of companies, the province has directed its efforts mainly at cracking cases relating to law and discipline violation. Yang Xizong, secretary of the Henan Provincial CPC Committee, has held two Henan Provincial CPC Committee Standing Committee meetings to listen to reports on cracking major and serious cases. Cheng Weigao, governor of Henan Province and concurrently leader of the leading group in charge of the work of screening and rectifying various types of companies has also held several meetings devoted to analyzing some major and serious cases, discussing ways and means for handling the cases, and resolving problems concerning the work. So far, Henan Province has cracked a total of 638 economic case involving more than 10,000 yuan, among which 81 cases are major and serious cases and 298 cases are cases of robbery. Henan Province has captured, confiscated, and levied fines totaling more than 18 million yuan; arrested 71 people involved in various economic cases, among whom one person is a

provincial department or bureau chief, four people are cadres at the county and department level; and 23 people have been disciplined according to party and government disciplines, of whom two are cadres at the county or department level. The Henan Provincial authorities are currently concentrating their efforts on cracking the remaining cases.

Moreover, the Henan Provincial CPC Committee and the Henan Provincial People's Government have also organized the departments concerned to carry out investigations in the China Zhongyuan International Group Company and some other companies and have basically resolved the problem of party and government cadres and retired party and government cadres doing full-time or part-time jobs in various companies.

Comrade Qin Kechai pointed out that the work of screening and rectifying various types of companies has now entered a crucial stage. The 5th Plenary Session of the 13th CPC Central Committee and the recently concluded enlarged meeting of the Henan Provincial CPC Committee have put forward higher demands on all the comrades in Henan Province. In the future, Henan Province must continue to implement all the plans aimed at abolishing and amalgamating various types of companies, crack cases relating to law and discipline violation, pay more attention to the management, organization, and construction of the companies that have been retained.

#### Henan Cadres To Work at Grassroots Level

HK0201054090 Zhengzhou Henan Provincial Service  
in Mandarin 2300 GMT 30 Dec 89

[Text] In accordance with the spirit of the 5th Plenary Session of the 13th CPC Central Committee and decisions of the provincial party committee and people's government, some 179 cadres from 41 organs directly under the provincial authorities will be formed into 47 groups and sent to the grassroots level after New Year's Day and before the Spring Festival to help implement the spirit of the 5th Plenary Session of the 13th CPC Central Committee. They will carry out investigation and study there and help grassroots units solve practical problems.

Yesterday, the provincial party committee and government held a mobilization meeting in Zhengzhou. At the meeting, concrete arrangements were made for sending the cadres to grassroots units. The cadres who would go to the grassroots were required to go deep into the first line to find out what the grassroots cadres and masses are really thinking and to help them implement and study the spirit of the 5th Plenary Session of the 13th CPC Central Committee and solve practical difficulties. They must set a high demand on themselves and identify themselves with the masses, carry out meticulous and painstaking ideological work, and set a good example for the grassroots cadres and leave a good impression for the masses by doing their jobs effectively and conscientiously.

Leaders of the provincial party committee and government, Zhao Di, Zhang Zhigang, (Liu Guangxiang), Hu

Tiyun, and responsible persons of various units directly under the provincial authorities attended the meeting.

#### NORTHWEST REGION

##### Shaanxi Propaganda Chief Stresses Work Improvement

HK2912034289 Xian Shaanxi Provincial Service  
in Mandarin 0030 GMT 27 Dec 89

[Excerpts] A provincial meeting to commend advanced propaganda work units and outstanding propaganda workers was held in Xian yesterday.

(Wang Jicai), head of the provincial party committee Propaganda Department, delivered at the meeting a report entitled "Learn From the Advanced and Work Hard To Further Strengthen and Improve Propaganda and Ideological Work." His report consists of three parts—1) reviewing the propaganda work of the past year, 2) examining some major problems concerning propaganda work, and 3) the guidelines for next year's major tasks for propaganda work. [passage omitted] Speaking of some important problems concerning propaganda work which we have to examine, (Wang Jicai) pointed out that propaganda and ideological work must persistently serve socialist economic construction, take the struggle against bourgeois liberalization as its long-term strategic task, persevere in Marxism for guidance, take as its main goal the effort to cultivate a new generation of people with lofty ideals, moral integrity, education, and a sense of discipline, and who regard social benefit as the highest criterion. Meanwhile, he added, propaganda and ideological work must be subject to party leadership. Referring to next year's major tasks for propaganda work, the propaganda chief emphatically pointed out that 1990 will be a year of crucial importance for economic improvement rectification and in-depth reform. The propaganda work of our province must focus on maintaining and developing the political situation of stability and unity, promoting economic improvement and rectification, and in-depth reform, and strengthening the building of spiritual civilization, with the focus on maintaining political stability and bringing revolutionary drive into full play. Through further efforts to beef up and improve ideological and political work, we must wage a deep-going struggle against bourgeois liberalization, endeavor to make theoretical, press, and cultural undertakings prosper, earnestly organize cadres to study the philosophy of Marxism, advocate again and develop the Yanan spirit through wide publicity and intensified education, and inspire the masses of people to brace themselves to overcome difficulties with one heart and one mind so as to continuously push forward economic construction and reform in our province.



### Editorial Advocates Increased Trade With East Europe

900H0197A Taipei CHING CHI JIH PAO in Chinese  
13 Nov 89 p 2

[Editorial: "We Should Step Up Development of Trade With Eastern European Countries"]

[Text] There have recently been two news items which deserve our attention. One is that on 2 November, a special correspondent of this paper interviewed the head of the bureau of the Hungarian Ministry of Foreign Trade in charge of trade with developing countries, who indicated that Hungary would be willing in the future to copy the practice of its neighbors and mutually establish unofficial trade missions with Taiwan, in order to expand economic and commercial relations between the two nations. He pointed out that Hungary had already gone through the proper channels to inform Taiwan of this. He requested that Taiwan remove administrative barriers to trade with Hungary and enable trade between the two nations to proceed more smoothly.

Another news item is that at this year's Canton Autumn Trade Fair, the CCP suddenly announced new stipulations concerning import and export trade, and adopted a strict policy of retrenchment and control. According to these stipulations, purchases from Taiwan can be made only through 68 mainland state-run enterprises. At the same time, it placed restrictions on mainland firms doing business with Taiwan, stipulating that in importing every variety of commodity, they must consult with various mainland specialized firms, or with provincial and municipal foreign trade units. These new stipulations have undoubtedly tightened control of firms doing business with Taiwan. These two news items appear on the surface to be unrelated, but they are of major significance for Taiwan's development.

Although private-sector traders have been extremely enthusiastic since the government announced 10 years ago that it would open trade with the socialist countries of Eastern Europe, there has been no major progress up to now. One reason for this is that the nations of Eastern Europe still maintain their rigid socialist systems, so that their economies have not developed at all. And Taiwan's government, due to political considerations, still imposes severe administrative restrictions on trade with Eastern European nations, and there is no way to smoothly resolve such problems as visas, establishing commercial delegations, and currency exchange. Another reason is that Taiwan's traders are subject to the aforementioned restrictions, and have no way of conducting thorough research on the markets of these countries. Consequently, trade with Eastern European nations has not grown significantly in the past 10 years. Taiwan's volume of bilateral trade with Hungary, for example, amounts to only \$2 million.

In contrast to the countries of Eastern Europe, mainland China adopted a policy of economic reform and opening 10 years ago, and Taiwanese traders one after another turned

their eyes to mainland China. Since the mainland is also our national territory, the people of the mainland are our compatriots, we share a common language and common lifestyles and customs, and because the mainland has a large population and abundant resources, it is a potential market. In addition, wages in Taiwan have risen and the labor force has gradually become inadequate, making operation more difficult day by day for some labor-intensive industries. Mainland China's cheap labor can provide a favorable way out for Taiwanese businesses. Therefore, if businesses do not invest in mainland China through various channels, they conduct indirect trade with the mainland through third regions such as Hong Kong. And the mainland, based on its own needs, has also openly welcomed these private-sector economic and trade relations. Although Taiwan's government constantly warns businesses about investment and trade relations with mainland China, and hopes that they can be prudent and avoid falling into a trap from which they will be unable to extricate themselves, this can by no means dampen the businessmen's enthusiasm. Therefore, investment in mainland China has increased day by day in recent years. Although there are no accurate statistics, the figures must be considerable. And the figures for indirect trade have grown even more, exceeding \$2.7 billion last year, giving Taiwan a large surplus.

However, the above situation has changed greatly during the past year. First, the nations of Eastern Europe, amid the wave of reform by socialist nations throughout the world, have also set off a burst of turbulent democratic liberalization movements; politically, they not only want to renounce communism, they also want to adopt pluralistic multi-party politics. This was achieved first in Poland, followed by Hungary, and now East Germany is also in the process of transformation. Even in the three Baltic nations of Latvia, Estonia, and Lithuania, which were annexed by the Soviet Union, independence movements are now brewing. Just what is the future of such democratization movements? It is still difficult to say with certainty whether the Soviet Union will use military force to suppress these movements, but in view of the fact that the Soviet Union itself is also currently implementing political reforms, it might be difficult for it to bring about military intervention in other countries. These Eastern European nations are on the one hand implementing political reform, and on the other hand are also, at the same time, implementing economic reform, and hope to strengthen economic relations with the West, in hopes of improving their economic structures. Moreover, just as the chief of the Hungarian Ministry of Foreign Trade bureau in charge of trade with developing countries had frankly stated, they are opposed to mixing politics and economy in one discussion, and welcome strengthening economic relations with countries like Taiwan.

In contrast with the socialist nations of Eastern Europe, however, the CCP is not only unsympathetic with the democratization movement carried out in the mainland, it actually deployed troops and tanks to bloodily suppress it, resulting in the outbreak of the bloody 4 June Tiananmen massacre. In this way, the democratization movement was temporarily suppressed and the politics

and economy of the mainland returned to the conservative old road of 10 years ago. A handful of obstinate old men with ossified brains are stubbornly holding on to power. They have not only destroyed in a single stroke the policy of economic reform and opening which has been carried out for 10 years, they are going to follow the former road of strict overall control even more closely from now on. This is why new stipulations about import and export trade were suddenly announced at the Canton Autumn Trade Fair this year.

After the bloody 4 June Tiananmen incident, indirect trade between Taiwan and the mainland has distinctly fallen off. Under the CCP's new trade stipulations, the CCP has tightened the snare even more, and indirect trade will be even harder to carry out from now on; so much so that more people fear that once the CCP thinks the time is right, it will close down and "confiscate" the factories of Taiwanese businesses, and that when that time comes, the Taiwanese businesses will be swept out the door, and their investments in the mainland will be completely lost.

We therefore believe that, in order to respond to the present new situation, the Taiwanese government should step up the development of economic relations with the nations of Eastern Europe. These nations will eventually throw off Soviet control and strengthen their economic and trade relations with the West, and Taiwan must not lose a good opportunity through hesitation again. We should develop economic relations with Eastern Europe not only in order to decentralize Taiwan's market, but also because Eastern Europe is really the most promising region for our pragmatic diplomacy. We therefore hope that the Taiwanese government can ease various stipulations, allow Taiwanese businessmen to invest in these countries, and conduct trade directly. Due to the potential of the Eastern European nations, we believe that they can become our important trade partners before long.

#### **Taichung Poll Reveals Opinions on Independence Issue**

90ON0215B Taipei TZULI WANPAO in Chinese  
10 Nov 89 p 2

[Text] According to the results of a public opinion survey of the people of Taichung, 38 percent believe in the people's freedom to discuss Taiwan independence and 31.4 percent hold the opposite view, but as for advocating Taiwan independence, only 15.7 percent are in favor and more than 50 percent are against it. Clearly, freedom of speech is a separate issue from people's opinions on particular issues. The poll, which was conducted by an opinion research foundation commissioned by Taichung city council candidate Hung Chao-nan [3163 2507 3948], also covered the cost of real estate, which is increasing at a high rate. Some people said, "Its mainly because politicians are engaged in speculation." Of those surveyed, 9.2 percent strongly believe that there is secret speculation, 47.5 percent believe that it is possible, and altogether the poll clearly indicates that 32.6 percent of the residents questioned feel that this

ratio is too much and another 34 percent feel that it is just right. Furthermore, most of those who feel the proportion is too high are highly educated; among this group, 37.5 percent are Taiwanese and 13.9 percent are mainlanders. On the topic of whether the people ought to have the freedom to openly support Taiwan independence, 38 percent support freedom of speech, more than the 31 percent who do not. As for educational background, the percentage of those with higher degrees and of Taiwanese descent is higher; among those who are members of the KMT [Kuomintang], 40 percent feel that there ought to be freedom to support Taiwan independence. As for electoral violence, among the voting public nearly 50 percent are worried that [1989's] yearend elections may lead to violence, and those who are unafraid or unconcerned number only 32 percent.

#### **Election Corruption Seen as Widespread**

90ON0236B Hong Kong MING PAO in Chinese  
27 Nov 89 p 9

[Article by Hsieh Hsi-i (6200 1585 1138)]

[Text] From Taiwan there have been continual reports of bribery in elections and incidents involving firearms ever since yearend elections have approached. Although each incident does not necessarily involve the elections, still, the numbers have risen in line with the elections. Such a situation relates to the two major political parties and their candidates, and it is a major characteristic of the elections this year. It can be said to be an indication of the corrupt election atmosphere in Taiwan.

To distance money and violence from the elections, as early as midyear, Lu Hsiu-lian [0712 4423 5571], a social movement feminist advocate, formed the "Clean Up Elections Alliance," creating a civilian supervision and inspection organ in addition to supervisory, policing, and election inspection units. Once it was announced that elections would be held, many experts and scholars predicted that violence and money entering into elections this year definitely would be serious. So it has come to pass!

As for the violence, although Taiwanese security units formed a special investigation case on 15 October to inspect important criminals at any time and seize outlawed firearms, it still appears that Taiwan is enveloped in a black fog. It was reported that brigands extorted NT\$6.3 million [new Taiwan dollars] from Taoyuan parliament candidate Yang Min-sheng [2799 2404 4141], provincial congress candidate Hsiao Yong-fung [5618 3057 0023] extorted NT\$1.2 million, and Yunlin County parliament candidate Tseng Hsien-chih [2582 7359 2535], who started out as an inspector, also received a threatening letter.

The outlawish atmosphere reached a pitch on 6 November. A major armed criminal, Huang Hung-hai [7806 7703 1384] led an attack on Changhua parliament candidate Ch'en Yung-yuan [7115 8673 3293], who has practically become a vegetable. This incident rocked the electoral house. Sixty-nine among 722 candidates called for police escorts. Many other candidates put in for

safety insurance for themselves and their supporters. For a time, everyone was terror-stricken whenever he hears and smells the slightest trace of blackmail.

Following that, a string of violent incidents occurred. Tainan municipal legislature candidate Ch'en Yuan-ch'i [7115 3292 1142] was captured and Kaohsiung gubernatorial candidate Yu Ch'en Yueh-ying [0151 7115 2588 3841] visited voters and met with danger.

Violence has been part of the elections for many years. But now the power of Taiwan's outlaws is reaching the stage of conformity. They are groups without leaders. Lower-level powers face various opportunities to rise. It has reached the stage where stealing does not require an excuse. Elections are the best way to start out. Once a case is discovered, it sets a bad example. There are even reactions when cases are closed.

In addition, outlaw factions are the same as local factions. They are everywhere in Taiwan. In themselves they have no problems getting votes, they also have a certain influence, so it would be difficult for them to stay out of elections.

In every election, there are always criminal or semi-criminal candidates. This situation is especially prevalent in southeastern Taiwan this year. Even gubernatorial-level important candidates are hooked up with outlaws. To expect Taiwan to have a clean election is like climbing a tree to catch fish.

As for "pounding out money" elections, perhaps this is the most enticing measure a candidate has. It has been this way for several decades. At every level of elections in Taiwan, candidates can rely only on mass appeal (such as Chao Shao-k'ang [6392 1421 1660]), factional support, and buying votes to be elected. Buying votes and bribery in elections are the most direct and effective.

Taking the adding of quotas in the parliamentary labor union elections for example, one candidate was clearly obscure and never heard of. But after he launched a money attack, his name was moved into second place, pressing upon KMT central Standing Committee member and chairman of the general labor union, candidate Shieh Shen-shan [6200 3234 1472]. One fisherman's union parliamentary candidate assented to a fishing territory, promising to bestow new wealth on them after his election. This is "buying the court" election bribery. There are outlaws at all levels of the elections. At this time they are comparing and tracking the names of candidates. One day before elections they will pound out the bank notes.

Elections in Taiwan during the past several decades have already induced ticket sales. There is a double to triple return on tickets. In other words, if a local parliamentary ticket is 60,000 ballots, they then must sell 30,000 votes at a total cost of NT\$150 million. The high cost is self-evident.

### Chiang Wei-kuo Indicates Desire for Presidency

90ON0215A Taipei TZULI WANPAO in Chinese  
3 Nov 89 p 14

[Text] General Chiang Wei-kuo said at the beginning of this year, "Only a fool would be president." With these words he indicated his decision not to participate in the presidential election. Recently, he recognized the "people's will" and now wishes to run for president. In order to make his run for the presidency smoother, during interviews he specifically points out that Chiang Ching-kuo has not said that members of the Chiang family will not run for president. Chiang Wei-kuo wishes to run for president. As to whether he is a fool, only he can decide that. In reality, many people want to run for president. Chiang Wei-kuo is just more enthusiastic, but the question is not whether it is right for him to want to run for president, but rather his reasons for running; they really do not reflect well on his wisdom. Winning support from senior parliamentary representatives and gaining the support of the people are two different things. Today, when everyone in the country feels hatred for the national assemblymen who for 40 years have not been elected and who have resisted resignation, for Chiang Wei-kuo to indicate that he has won the support of these individuals in order to gain "support of the people" is to depart somewhat from reality. To cynically reinterpret his great "older brother's" words for the sake of an election is in all truth unnecessary. Chiang Ching-kuo's words can not be made any plainer: can not and will not. Chiang Ching-kuo's aim very clearly was that his son, his elder brother, and his wife, Chiang Sung Mei-ling, should all resign from political circles. However, this was Chiang Ching-kuo's wish; since he is no longer here, should his words still hold sway? Since they have not become law, there's nothing to obey. If Chiang Wei-kuo wants to run for office, he should simply declare out loud that he wants to run for office; what "support of the people" is there? Is it not that he drummed it up himself? And to drag in whether his brother said something, whether his brother had been misunderstood—this is all superfluous. His own half-hearted statements only cause people to see through the political hocus-pocus and to feel disinterested. The political achievements of the two generations of Chiangs still await the judgment of history. Whether members of their clan can depart from the inner circle of political power from this point on will depend on the family's prestige. In the words of the common people, they have an accumulation of ancestral virtues. To enthusiastically wish to reenter the inner circle is naturally Chiang Wei-kuo's right and duty as a citizen, but since he bears a larger burden of blood ties to the two generations of Chiangs than do other people, Chiang Wei-kuo's behavior does not translate only into his own personal successes and failure, but also affect the reputation of the entire house of Chiang. If his presidential election efforts help in repressing the overly enthusiastic "scheming hearts" within the military, of course this would be a good thing. That is, if Hao Po-ts'un [6787 2672 2625] also runs, it will be even harder for Chiang Wei-kuo to tolerate the situation.



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